Austria	Sch22	Indonesia	Rp3100	Portugal	Esc100
Bahrain	Din0.650	Israel	NS3.50	S.Arabia	Rls6.00
Belgium	BFr48	Italy	L1600	Singapore	S$4.10
Canada	C$1.00	Japan	Y600	Spain	Pta125
Cyprus	C£0.75	Jordan	Fils500	Sri Lanka	Rup30
Denmark	DKr9.00	Kuwait	Fils500	Sweden	SKr8.00
Egypt	E£2.25	Lebanon	$L125.00	Switzerland	SFr2.20
Finland	Fmk7.00	Luxembourg	LFr48	Taiwan	NT$65
France	FFr6.50	Malaysia	Rls4.25	Thailand	Bht50
Germany	DM2.20	Mexico	Pes300	Tunisia	Din0.800
Greece	Dr100	Morocco	Dh6.00	Turkey	L500
Hong Kong	HK$12	Netherlands	Fl3.00	UAE	Dh6.50
India	Rup15	Norway	Nkr8.00	USA	$1.00

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

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Sicily: 'Mafiosi' trial ends the myth of invincibility, Page 18

World News

Roh's win rejected by opposition candidates

The victory of Roh Tae Woo in South Korea's first presidential election for 16 years was yesterday rejected by the two main opposition candidates as fraudulent.

Kim Dae Jung and Kim Young Sam claimed there had been widespread ballot rigging and voter manipulation. Both scored fewer votes than expected. **Page 18**

Sweden-EC barriers

Sweden said it would seek to abolish all economic barriers between it and the European Community.

US inspection

US experts left for the Soviet Union yesterday to inspect what the Reagan Administration said are two radars set up in violation of the 1972 Antiballistic Missile Treaty.

Mozambique amnesty

Mozambique's President Joaquim Chissan offered an amnesty for rebels fighting in the 11-year old civil war if they lay down their arms.

Soares partnership call

Portuguese President Mario Soares is due to tell the Spanish parliament today that it was time for both countries to deal with each other as equals.

Mubarak-Reagan talks

Egypt's President Hosni Mubarak will have talks with President Ronald Reagan in Washington late next month, Egyptian government sources said.

Chairman accused

Daniel Dewavrin, chairman of the French armaments and motor parts company, Luchaire, was charged with fraud, corruption and illegal arms sales following the alleged export by his company of artillery shells to Iran. **Page 2**

Spain to urge mergers

Spain's Industry Ministry will actively support mergers to improve competitiveness in the EC said a policy paper. **Page 2**

Contra aid rejected

The US House of Representatives rejected a Senate plan to provide some $16m in lethal and non-lethal aid to the Nicaraguan Contras. It named a task force to present a counter-offer.

Young leaders elected

Peking's Communist Party congress elected a smaller, younger and better-educated party committee. The average age of new members is 52, six years younger than their predecessors, said the official Xinhua newsagency.

Hart splits support

US presidential contender Gary Hart the most popular Democrat in the field with 28 per cent support among other Democrats, said a public opinion poll. However, 38 per cent rated him unfavourably.

Airport deal snubbed

Gibraltar effectively rejected the Anglo-Spanish accord on the Rock's airport reached earlier this month. **Page 2**

NZ tax reforms

New Zealand is to reform taxation and privatise some state-owned assets. Proposals include single rate personal tax. **Page 4**

Earthquake hits Japan

An earthquake jolted a wide area of Japan, killing at least two people and injuring 53 others, police said.

US 'jamming radar'

Tehran Radio accused the US of jamming Iranian radar to protect Iraqi aircraft attacking ships off Iran's Gulf coast.

Karpov victory

Anatoly Karpov scored a dramatic 57th move win in the 23rd and penultimate game of his title chess challenge in Seville, to take the lead over champion Garry Kasparov.

Business Summary

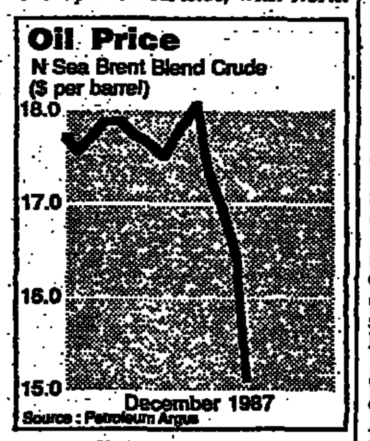
Brazil seeks $11.5bn to cover debt repayments

Brazil is seeking $11.5bn in new loans from its commercial bank creditors for the three years 1987 to 1989 in order to refinance debt interest payments falling due over the period.

The new loans would cover 60 per cent of the debt burden and would make up the shortfall in the country's balance of payments, according to Mr Carlos Eduardo de Freitas, the external director of the Central Bank. **Page 18**

COUNTY NATWEST, investment banking arm of National Westminster, large UK clearing bank, lost £69m ($126m) in October's market crash. **Page 19**

OIL prices continued to fall in frenzied trading in the wake of the Opec conference, with North



Sea Brent Blend crude losing $1 a barrel to $15.15. **Commodities, page 28**

WALL STREET: The Dow Jones industrial average closed down 50.07 at 1,924.40. **Page 40**

LONDON: The FT-SE 100 index ended the day 16.4 higher at 1,706.2 – its best close since November 2 and a fifth successive advance. **Page 36**

TOKYO: The Nikkei average gained 80.41 to 22,899.83. Despite the last-minute buying spree, trading remained lacklustre with turnover at only 523.33m shares, compared with Wednesday's 685.38m. **Page 40**

DOLLAR closed in New York at DM1.6175, FFr5.4745, SFr1.3115 and Y125.85. It closed in London at DM1.6220 (DM1.6305); FFr5.49 (FFr5.5275); SFr1.3170 (SFr1.3285) and Y126.20 (Y127.30). **Page 29**

STERLING closed in New York at $1.8400. It closed in London at $1.8355 ($1.8320); DM2.9775 (DM2.9875); FFr10.0775 (FFr10.1275); SFr2.4175 (SFr2.4350) and Y231.60 (Y233.25). **Page 29**

PORSCHE, West German luxury car company said sales in the US plummeted by 17 per cent in the first 11 months of 1987 to 22,350 cars. **Page 21**

HUSKY OIL, Alberta-based petroleum group, is negotiating to buy the Canadian subsidiary of Texaco, crippled US oil giant which may need to sell assets to finance a settlement of its dispute with Pennzoil. **Page 19**

KANSALLIS-OSAKE-Pankki, Finland's leading bank, and Pohjola, country's largest insurance company, are to acquire a 15.8 per cent stake in Skandia, Sweden's biggest insurance group, for SKr1.6bn ($269m). **Page 19**

MARSH & MCLENNAN Companies, world's biggest insurance broker, is to reshuffle its broking operations worldwide. **Page 19**

APPLE COMPUTER, US personal computer manufacturer, forecast record sales and earnings during the current quarter, dispelling concerns that curbs on spending following the stock market crash might hit the personal computer market. **Page 19**

TEXAS INSTRUMENTS, US electronics and semiconductor manufacturer, has signed a letter of intent to sell 60 per cent of its geophysical oil services business to Halliburton, a leading Texas oil services company. **Page 19**

VOLKSWAGEN, West German motor group, said profits for 1987 will be much the same as the pre-tax DM2.1bn ($1.3m) for 1986. **Page 21**

Union Carbide rejects Indian legal ruling on Bhopal

BY RODERICK ORAM IN NEW YORK

AN INDIAN judge yesterday ordered Union Carbide, the US chemicals group, to pay Rs3.5bn ($270m) in interim relief for victims of the 1984 Bhopal poison gas disaster. The move appeared to be aimed at hastening a negotiated settlement.

Union Carbide strongly rejected the order for part-payment of $3bn compensation sought by the Indian Government for the deaths of more than 2,800 people and serious injury to 20,000 caused by a leak of gas from a plant owned by the company's Indian subsidiary.

"The court order amounts to awarding damages without a trial, which runs counter to legal principles in India and other countries," said Mr Robert Berzok, director of corporate communications at Union Carbide's Connecticut headquarters.

"Although we are deeply concerned for the victims, interim compensation has never been allowed where the evidence with respect to liability is in dispute," he added.

Union Carbide has long contended that the disaster was caused by employee sabotage rather than negligence by its 50.9 per cent-owned Indian subsidiary.

Mr Berzok said: "We wish to bring legal proceedings to a conclusion and to see that prompt aid comes to the victims. Both results will be achieved by a settlement between Union Carbide and the Government of India. Neither result would be achieved by an order for interim compensation which is likely only to prolong litigation."

The two sides came close to a settlement in mid-November but, after they failed to meet a court-imposed deadline, Judge Mahadeo Wamman Deo of the Bhopal district court began to hear petitions for interim compensation which led to yesterday's ruling.

It appeared Union Carbide was willing to pay between $500m and $650m to settle the litigation, with at least $350m going to the victims and a minimum of $150m to the Indian Government to reimburse medical and other costs.

US security analysts believe Union Carbide could handle such a settlement without jeopardising its finances. They calculate that much of the money would come from about $200m of insurance cover for the disaster and $85m to $100m raised from a charge against fourth-quarter 1985 earnings. Its share price slipped $½ to $22 yesterday in New York.

The Indian Government stepped up pressure on Union Carbide earlier this month by filing homicide charges against Mr Warren Anderson, who retired as chairman in November, 1986, and other former company officials.

Despite missing the November deadline for a settlement, Union Carbide is still negotiating with the Indian Government, US executives said yesterday. The company has yet to see the text of Judge Deo's ruling so its next legal move will depend on what it finds in it.

Husak resigns Czech party leadership and nominates successor

BY LESLIE COLITT IN BERLIN

MR GUSTAV HUSAK, who became leader of Czechoslovakia after the Soviet invasion of 1968, resigned yesterday as the party's Secretary General and was succeeded by Mr Milos Jakes.

Mr Husak, 74, is believed personally to have nominated the 65-year-old Mr Jakes, thereby ensuring that the party leadership remains in conservative hands.

The Czechoslovak newsagency CTK said Mr Husak, who took over from the reform-minded Mr Alexander Dubcek, asked to be relieved of his post for undisclosed "serious reasons."

Mr Husak is to remain President of Czechoslovakia, a largely ceremonial post, and a member of the ruling Praesidium.

Mr Jakes, who was responsible for economic affairs as a Central Committee Secretary, takes full control of the party with the economy in deep trouble, but there is no talk of perestroika, or Soviet-style economic restructuring.

Mr Jakes built his reputation as a party organiser in the 1970s at the height of the Brezhnev era when economic and political reform were not encouraged.

Husak: ceremonial post

Mr Husak, a lawyer by profession and a Slovak, was a remote figure to most Czechoslovaks. His background as a victim of Stalinism did not prevent him from purging the party in the early 1970s of 70,000 members who were followers of Mr Dubcek. However, it explained why he did not stage mass trials of his opponents after the Soviet-led occupation.

His successor, Mr Jakes, received a message yesterday from the Soviet leader, Mr Mikhail Gorbachev, urging him to carry out political and economic reforms.

Until now Mr Jakes did not stand out as a particularly reformist member of the Politburo, although in brief remarks yesterday he said he would strengthen citizens' "rights and freedoms."

Mr Jakes' main task will be to carry out an economic reform programme which he helped draft last year. It has been widely criticised by reformist Czechoslovak economists as a bureaucratic reform designed mainly to streamline the centrally planned economy.

Earlier this year Mr Jakes said the party would continue to control the activity of company managers. He noted the reforms did not envisage the "full independence of enterprises from central management." This, he said, was a fundamental difference from the economic reforms formulated in 1968 under Mr Dubcek.

Analysis, Page 2; Moscow-EC links, Page 8

Pragmatic Jakes takes charge

BY JUDY DEMPSEY IN VIENNA

AFTER MONTHS of speculation and whisper, the rumours have finally come true. Mr Gustav Husak has at last resigned and Mr Milos Jakes now holds the reins of power in the Communist Party of Czechoslovakia.

His promotion, however, represents no clear victory for the cautious reformers and those who have yearned for change over the past 19 years. Mr Jakes does not represent change. Instead, he combines pragmatism with opportunism.

For those who hoped for real change, Mr Jakes may be something of a disappointment. He fully identified with the leadership which crushed the "Prague spring", the reform movement spearheaded by Mr Alexander Dubcek, which attempted to give Czech socialism a human face.

Mr Jakes is a Czech (Mr Husak is a Slovak) who was born in August 1922. He made his way steadily up through the ranks of the Communist Party. In the early 1950s he worked on local government and local youth committees. By 1955, he was on the central committee of the youth movement and was later moved

Continued on Page 18

Bush 'supported Iran arms for hostages deal'

BY LIONEL BARBER IN WASHINGTON

US Vice-President George Bush supported the sale of arms to Iran in exchange for the release of American hostages in Lebanon, according to a White House memorandum released yesterday by the joint congressional committee investigating the Iran-Contra affair.

The committee said the newly discovered memorandum represented the first, albeit hearsay, evidence that Mr Bush backed the Iran initiative – the worst foreign policy disaster of the Reagan presidency.

Mr Bush, the front-runner for the 1988 Republican presidential nomination, has repeatedly refused to disclose his position in the internal administration debate on the arms deals, arguing that his advice to President Reagan should remain private. His office declined comment yesterday.

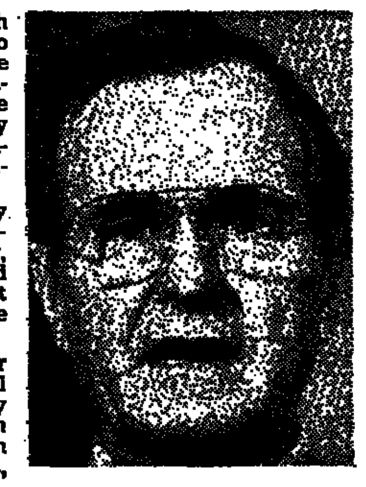
The Iran-Contra committee wound up its investigation last month, publishing a 690-page report on the affair which was sharply critical of President Reagan and his top aides who had run a "campaign of dishonesty and deception."

Using a new computer programme, committee aides turned up a February 1, 1986 memo written by Rear Admiral John Poindexter, President Reagan's former national security adviser on the Iran arms initiative.

The memo said: "Most importantly, President and VP (Vice President) are solid in taking the position that we have to try."

The memorandum is damaging to Mr Bush because it ties him to what many consider the essence of the scandal: the sale of arms to Iran, which was labelled a terrorist country by the US, in return for hostages.

Mr Bush himself chaired an intergovernmental task force on terrorism in 1986 which recommended staunching the flow of arms to terrorist countries.



Bush: "advice to Reagan should remain private"

However, the memo does not tie Mr Bush to the other major element in the scandal, the diversion of profits from the arms sales to the Nicaraguan contra rebels during a Congressional ban on US aid. The diversion scheme - and the shredding of hundreds of documents by two senior White House officials, Admiral Poindexter and Lt Col Oliver North – is the subject of a criminal inquiry.

Until yesterday, the last word on Mr Bush's position in the affair appeared in the congressional report which said: "The Vice-President attended several meetings on the initiative, but none of the participants could recall his views."

But the Vice-President's Republican challenger has taunted Mr Bush, saying in a recent TV debate: "Were you in the cockpit, or were you on an economy ride in the back of the plane?"

Sensitive technology 'lost' in deal with Moscow

By Lionel Barber in Washington

THE SOVIET UNION acquired at no cost from a US-owned company in Britain a nearly complete plant to make a high-technology material which significantly improves the accuracy of nuclear warheads, according to a US congressional committee.

The findings of a sub-committee of the House Energy and Commerce panel has sparked a bitter inter-governmental row in Washington.

The committee's claim that the case amounts to one of the worst ever losses of Western technology know-how to the Soviet Union is bitterly disputed both by the British Government and by the US officials involved.

But its findings are already being used as a weapon in the long-running battle over the Reagan administration's use of export controls in East-West trade.

At stake is the reputation of the Pentagon's Trade and Security Policy group, the powerful watchdog agency set up in 1985 to beef-up national and international controls on the transfer of sensitive technology to the Soviet bloc.

The story of how the Soviet Union purchased specialised equipment for hardening nuclear warheads was first disclosed in a series of articles last month in Newday, a Long Island newspaper.

It was followed up by the House Energy and Commerce Committee and culminated in a closed-door session last week which just happened to coincide with the Washington superpower summit.

According to the sub-committee's findings, between 1982 and 1985 Consarc Engineering, a US-owned British company based in Scotland, sold the Soviet Union a classified process to manufacture a durable and heat-resistant material called carbon-carbon.

This material is a woven fabric lighter than steel, but is able to withstand extremely high temperatures, experienced, for example, when an intercontinental ballistic missile re-enters the earth's atmosphere. It is an ideal substance, therefore, in the production of nuclear warheads, ensuring that they do not "wobble" as they home in from outer space on their targets.

The US has been able to make carbon-carbon since the 1950s but its qualities only became widely known through published articles in scientific journals in the late 1970s.

According to a Pentagon official, it was around this

Continued on Page 18

Dee Corporation faces £2bn bid from £130m confectioner

BY NIKKI TAIT IN LONDON

THE RECENT upswing in bid activity in Britain took a dramatic turn yesterday when Barker & Dobson, a £131m ($240m) confectionery company, launched a £2bn cash and shares offer for Dee Corporation, the country's third-largest listed food retailer.

To fund the cash element of the bid and provide working capital, Barker is raising £1.6bn of loan finance from a seven-strong syndicate of banks. It is the first major leveraged deal of this type since Elders IXL, the Australian group, bid for Allied-Lyons two years ago. It is also the first takeover involving two UK companies to top the £1bn-mark since Pilkington escaped the clutches of BTR last February.

News of the Barker bid came as Dee Coporation's chairman and chief executive, Mr Alec Monk, was in the US. Before his return – he was due to fly in yesterday evening – the company put out a holding statement, noting the bid announcement and advising shareholders to take no action. Despite the fact that bid rumours have surrounded Dee recently, it was unclear who the company's advisers would be.

Barker & Dobson has seen a rapid revival in its fortunes since Mr John Fletcher, the former managing director of the Asda supermarket chain, moved in as chairman and and chief executive of the ailing confectionary group two years ago. A number of disposals and subsequent acqusitions - including the Budgen chain for £80m from Booker McConnell - followed, and the company has switched from a £2.8m pre-tax loss in 1984, to forecast profits of £13m in 1987.

Dee Corporation, by contrast, is still digesting the results of a rapid acquisition programme, and recently reported an 18 per cent fall in pre-tax profits to £63.6m in the 28 weeks to early-November. The company takes in over 800 supermarkets.

If the bid is successful, Mr Fletcher plans to dispose of Dee's 76 UK superstores, plus its non-Gateway interests. Yesterday, analysts were estimating that the disposals could raise slightly in excess of £1bn - with the UK superstores contributing over half that sum.

A key 15.2 per cent stake in Dee is held by Associated British Foods, following the sale of its Fine Fare stores to the food retailer in June 1986.

The terms of the offer are 11 new Barker & Dobson shares and 2807p in cash for every 20 Dee. With B & D down 12p to 153p yesterday, that values each Dee at 224.5p and the entire company at just under £2bn. Yesterday, Dee shares added 54p to 230p.

To finance the £1.25bn cash element, and to provide further working capital B&D's advisers, Kleinwort Benson, have arranged a seven-strong bank syndicate to provide £1.6bn of bank facilities. Citibank is putting up £650m; Chemical Bank, £300m; International Bank of Japan, £200m; Standard Chartered and Credit Agricole, £100m each.

The two UK banks are Kleinwort (£100m) and B & D's own bankers, Bank of Scotland (£150m). The loan is for three years and carries a rate of 1¼ per cent over London inter-bank offered rate. The share element requires the issue of 488m new B&D shares, five and a half times the number currently in issue.

A bid financed by banks, Page 16; Lex, Page 18

CONTENTS

JAPAN BUYS TIME FOR REFORM

Noburu Takeshita, Japan's Prime Minister, "backroom politician with a flair for consensus politics," Page 4.

Paris opens car phone market to competition

BY PAUL BETTS IN PARIS

FRANCE'S conservative government has taken another step in *deregulating French telecommunications* by opening the market in radio and car telephones to competition.

The move follows the introduction of competition in the market for so-called value added telecommunications services earlier this year.

Mr Gerard Longuet, the telecommunications minister, has now chosen a second group of *industrial* partners to compete in the French radio telephone market against the Direction Generale des Telecommunications (DGT), the French telecommunications authority. DGT is associated with the Matra defence and electronics group in the mobile telephone business.

Its new rival is a consortium led by the Compagnie Generale des Eaux, the large French private water distribution group, and includes Alcatel, the French controlled international telecommunications concern, and Nokia, the Finnish industrial group.

The consortium was selected in preference to two others, one linking the Bouygues construction company with Ericsson of Sweden and the other associating the Lyonnaise des Eaux private water company with Motorola of the US.

Generale des Eaux will also lead the new company which will operate mobile telephone services based on the Nokia-Alcatel equipment. Other partners are expected to join the operating company, including possibly one of the independent US Bell telephone companies. Bell South is reported to be likely to join the French consortium.

The French government hopes the move will speed up the development of radio telephones. France has fallen behind in this sector, with only 30,000 radio telephone subscribers against about 200,000 *in* the UK and 300,000 in Scandinavia.

However, the French authorities expect the number of subscribers to increase to 300,000 by 1992 with 200,000 subscribers supplied by the Matra-DGT Radiocom 2000 system and another 100,000 supplied by Generale des Eaux-Alcatel-Nokia.

The government's decision to chose a second supplier of radio telephone services is a significant move in the gradual deregulation of French telecommunications. But the conservative administration has decided to shelve its broader telecommunications deregulation bill.

Luchaire chief charged over Iran arms sales

BY GEORGE GRAHAM IN PARIS

MR DANIEL Dewavrin, chairman of the French armaments and motor parts company Luchaire, was yesterday charged with fraud, corruption and illegal *arms sales following* the alleged export by his company of artillery shells to Iran.

The charges are the first in the Luchaire case, which opened in March 1986 after the Ministry of Defence had lodged an official complaint, and which has impli*cated close advisers of the for*mer Socialist defence minister, Mr Charles Hernu.

The affair was stirred last month with the *leaking* of an internal Defence Ministry report which included allegations by one witness that commissions on the *Iranian arms sales had* helped to fund the Socialist party, then in power.

Although the arms sales took place before the right-wing government took office in March 1986, the affair, along with similar charges of illegal exports to Iran by the state-owned explosives company SNPE, has embarrassed the administration.

Mr Jean-Bernard Raimond, foreign minister, acknowledged earlier this week that the Luchaire case had "damaged France's credit in the world." He said a number of Arab countries had expressed *concern, fearing that* France "was speaking with a forked tongue."

Sweden to seek close links with Community

By Sara Webb in Stockholm

SWEDEN is to seek closer economic co-operation with the European Community in the run-up to the formation of the EC's internal market in 1992.

It wants to eliminate non-tariff barriers, to work on standardising goods, and to co-operate in research and development, the free movement of capital and labour, foreign aid, and the environment and transport.

The government said it might be prepared to contribute to the EC budget, but would not co-operate in areas affected by questions of security and foreign policy which would compromise Sweden's neutral status.

"All the doors are open, except the one leading to full membership," said Mr Goeran Berg, a senior foreign trade official.

The guidelines, presented in a bill to parliament, were greeted with disappointment by Swedish industrialists, who have pushed for full EC membership, but who have modified their stance in recent weeks *realising* that *no* political party is prepared to compromise on the neutrality question.

The EC is Sweden's most *important* trade partner, taking 50 per cent of its exports. West Germany, the UK, the US, and Norway each account for 11 per cent of Swedish exports.

The government said it wanted to work on co-operation with the *EC so that Swedish companies* would not face discrimination in the European market and would be treated on an equal footing.

"The price of a balanced agreement with the EC is opening up the Swedish market," said Mr Ulf Dinkelspiel from the Foreign Trade Department, who maintains that Sweden would be prepared to pay its due share. In the past, Sweden has contributed to research and development projects with the EC in which Sweden had an active interest.

The Swedish Industry Confederation said that the government's guidelines lacked ambition as they had expected more commitment on the right of establishment for companies, and freer movement of labour and capital.

The Confederation warned that Swedish companies would *continue to face discrimination* in questions such as work permits.

Leslie Colitt assesses the change of leaders in Czechoslovakia

Czech reforms unlikely to speed up

Mr Gustav Husak, the Czechoslovak president replaced yesterday after 18 years as Communist Party leader, presided over an era when economic and political reforms were crushed. His successor, Mr Milos Jakes, while still a conservative, is expected to continue the country's limited reform programme.

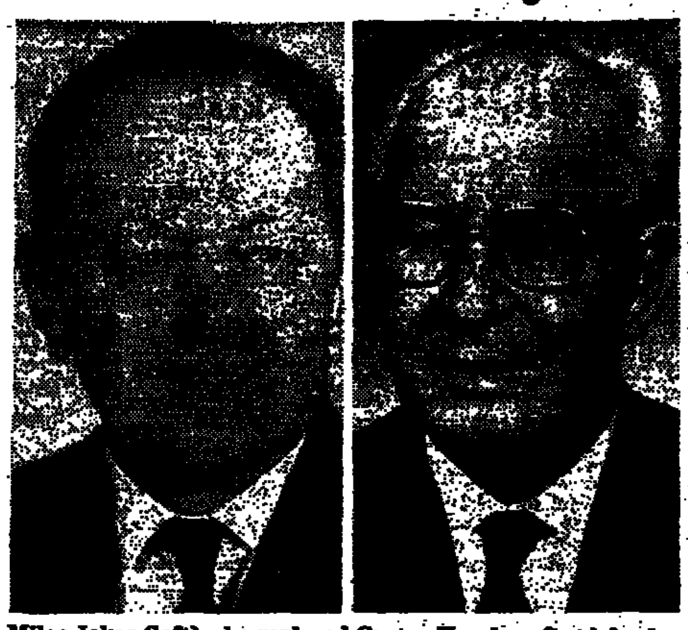
The dour 74-year-old Mr Husak, who has for some time suffered ill health, rose to lead the Czechoslovak party after being sentenced to life imprisonment and jailed for 9 years in the Stalinist repression of the 1950s.

His resignation comes 20 years after the departure in disgrace of Mr Antonin Novotny as party first secretary. Then as now, both men were unable to cope with an *ailing Czechoslovak* economy. But here the parallels end.

In January 1968 the party chose Mr Alexander Dubcek as its reform-minded leader. The birth of "Socialism with a human face" under Mr Dubcek was as revolutionary for East European Communism as Mr Mikhail Gorbachev's *glasnost* is for Soviet society. But Mr Dubcek's reforms came too early and were crushed *by Soviet tanks in August* 1968.

This time the party has chosen a man who embodies political continuity with, it is hoped, economic acumen. Mr Jakes, aged 65, is a conservative as are the rest of the eleven member ruling praesidium of the Czechoslovak party. As head of the party's central control and auditing commission from June 1968 until 1977 he personally supervised the purge of Dubcek supporters *from the party.*

As the party's leading official responsible for the economy throughout the 1980s, Mr Jakes presided over a steady decline in



Milos Jakes (left) who replaced Gustav Husak as Czech leader

economic performance. But there was *little* for which he could be personally blamed. The rigid centrally planned Czechoslovak economy was geared mainly to *producing the range of goods* required by other members of the Eastern bloc, particularly the Soviet Union. In the wake of Mr Gorbachev's political and economic reforms, Mr Husak and Mr Jakes last year presented their own programme for *pestavba* - the restructuring of the Czechoslovak economy.

Unlike the Soviet Union, political liberalisation in Czechoslovakia was to be kept to a mini*mum. Mr Husak,* who was chosen by the Brezhnev to succeed Mr Dubcek in April 1969, knew where *glasnost* would inevitably lead in Czechoslovakia with its strong pre-war democratic traditions. Instead Czechoslovaks were offered *informovanost* - a somewhat more informative press and *media.*

Mr Jakes however managed to cause a stir yesterday when he noted after his nomination by Mr *Husak that he would strive to* strengthen the "rights and freedoms" of citizens. Czechoslovaks were curious to know what he meant.

"Time will show whether he is a reformer," said one Czechoslovak official yesterday.

There was nothing in Mr Jakes's speeches this past year to indicate he wants anything more than to streamline the faltering economy without unleashing liberal genies. Statistics released only a few days ago showed the economy had again "slowed down", with a *shortfall of 1 per* cent in the planned growth of 3.5 per cent this year. Even such figures though were meaningless as more than a quarter of output was unsaleable.

Under the Principles of Restructuring which Mr Jakes helped draft, central planners are to concentrate on strategic goals while central administration of the economy is to be "drastically" reduced. Companies are to be placed on a "self-accounting" basis and weaned off subsidies. They are to plan their own development and *have* greater say in choosing their partners. Net output and profit are to be management's main objectives. Prices, interest rates, exchange rates and taxes are to become more realistic while wages are to be linked with performance. These measures are to be introduced gradually until 1991 when they are to form the basis of the next five year plan.

In the meantime though it is *as difficult as ever to make con*tact with a factory manager in Czechoslovakia. The central ministries and foreign trade organisations still reign supreme.

Prague was rife with rumours yesterday about further changes at the top. Mr Lubomir Strougal, the Prime Minister, who advocated economic reforms *in* the 1970s, was said to be a candidate for "removal upstairs" to become a deputy Prime Minister of the Czech government and chief of planning for the Czech lands. Foreign trade has continued to perform very poorly this year. Crucial hard currency earnings fell as a result of weak markets for Czechoslovakia's leading exports to the West - fuels, lumber and other raw materials.

Bonn faces DM4bn rise in EC payments

By David Marsh in Bonn

WEST GERMANY'S contribution to the European Community next year is likely to rise by DM4bn from the level officially set so far, adding further to the already rapidly-growing domestic budget deficit.

Officials say Bonn's EC contribution in 1988 is expected to total DM17.9bn compared with DM13.9bn set down in the federal budget plan for next year.

However, in view of the slowdown of the domestic economy, Chancellor Helmut Kohl has now firmly decided against increasing consumer taxes to offset the higher spending, they say.

In the past, the *possibility* both of increasing value added tax and of raising levies on oil and tobacco had been held out in Bonn *as means* of topping up government revenues next year.

The extra EC spending comes partly as a result of new contribution rules which officials hope will be agreed at the planned emergency summit in February. The new system would bring a higher proportion of national VAT revenues into budgetary resources, as well as a further payment based on countries' *gross national products.*

The Brussels meeting, which will take place under the presidency of West Germany, has been called to resolve the Community's budgetary and agricultural crisis after the failure of the Copenhagen summit this month.

The extra money will also need to be paid because of the effect of the decline of the dollar in pushing up agricultural spending, and to compensate for the *financial gap opened up* by the rejection of a plan for an EC fats and oils tax. Bonn is by far the largest contributor to the *Community* but has made clear it is willing to put in further funds as part of an overall reform package which it hopes can be clinched by February.

Spain to press for industrial mergers to boost competition

BY DAVID WHITE IN MADRID

SPAIN'S Industry Ministry will actively support mergers aimed at improving competition in the European Community, according to a policy paper evaluating the impact of EC membership.

The call for greater concentration in industry comes amid controversy over *what* is being seen as government intervention in favour of mergers in the banking sector.

This move was sparked by the backing for Banco de Bilbao's recent unsuccessful bid for the larger Banco Espanol de Credito (Banesto).

The size of the average Spanish company, too small to take on the costs of technological development or to create proper export networks, is one of the main handicaps singled out in the industry report.

Although Spain enjoys lower wage *costs than the richest EC* countries, its manufacturers cannot rely on cheap labour to guarantee future competiteness, it argues.

Wage costs are becoming a less important factor while Spain suffers from a lower technological level, a productive structure *more concentrated in traditional* sectors than its competitors and out of harmony with its demand structure, and a weak presence *overseas.*

Spanish companies' export efforts have been geared too much to sales through third parties and to price competition, without ensuring a permanent foothold in foreign markets,

Industrial policy in the context of the "horizon of 1992" – the completion of *Spain's transi*tional period for dismantling industrial import tariffs and the move towards a barrier-free EC market – *aims to bolster this* international presence either through the establishment of marketing networks or through association with foreign companies.

After a boom in direct foreign investment in the first two years of membership – especially from the EC – *the report looks* towards a continuing inflow and to "a global platform from which Spanish and foreign companies *can together* compete internationally."

Although it says industry has reacted well in the past two years, it has made little progress in gaining EC markets.

In 1986 industrial output rose more than 3 per cent, the highest rate for a decade, and growth has accelerated so far this year.

Since last year, jobs are being created instead of lost, and investment and profits have recovered *strongly.*

Serbia's culture minister sacked from Party

THE CULTURE Minister of Yugoslavia's biggest republic was sacked from the Communist Party yesterday, the latest target of a hardline faction which has achieved dominance, **Reuter reports from Belgrade.**

The state news agency Tanjug said that Mr Branislav Milosevic, Culture Minister of the republic *of Serbia, was expelled for* defending an outspoken student newspaper which was accused in May of insulting late leader Mr Josip Broz Tito.

Mr Milosevic defended the paper in an article published in the weekly news magazine NIN, also in May.

Analysts in Belgrade said that Mr Milosevic's sacking was linked to the rise of hardline Serbian Communist Party chief Mr Slobodan Milosevic who emerged victorious from a power struggle with the more liberal Serbian State President Mr Ivan Stambolic.

Higher deficits temporary says Bundesbank

HIGHER public sector deficits to *boost West Germany's economy* should only be a temporary measure and not undermine long term efforts to consolidate public *spending, the Bundesbank said* in its monthly report, **Reuter reports from Frankfurt.**

"Accepting a worsening (of *deficits) might be unavoidable in* order not to reinforce the trend toward a weaker economy. This is acceptable only to the extent that medium *term tenets of* financial policy are not given up," the Bundesbank said.

In an overview of public spending at the federal, state and municipal level, the Bundesbank detailed its forecasts for higher deficits next year.

Overall deficits should rise to about DM60bn, or three per cent of gross national product in 1988, from DM53bn to DM55bn in 1987.

Bonn's plan to implement DM14bn in tax cuts in 1988 to boost the economy will be a major factor.

The Bundesbank said: "Lower revenues, owing to economic factors and necessary further spending, could lead to a higher deficit." *Assuming Germany*'s gross national product grows a nominal 4 per cent in 1988, tax revenues for all authorities should rise by 2½ per cent, it added.

Turkish growth reaches 6.8%

By David Barchard in Ankara

TURKEY'S economy grew 6.8 per cent this year, according to preliminary figures from the State Institute of Statistics yesterday. This is below the 8 per cent growth of 1986, but above the annual target of 5 per cent.

Manufacturing grew by 9.1 per cent this year compared with 10.5 per cent in 1986, while agriculture grew much more slowly, rising by 2.6 per cent against 7.3 per cent.

The growth figures will be *greeted with only muted* enthusiasm as Turkey is grappling with serious post-election economic difficulties, with the year-end inflation rate expected to be over 50 per cent.

The Central Bank yesterday moved to correct lax monetary policies of recent weeks by increasing from 12 per cent to 14 per cent the amount of their total deposits which the commercial banks must place with it.

The new rules appeared to be aimed at reducing liquidity in the markets caused by heavy Treasury borrowing from the Central Bank in recent weeks.

Commission threat over haulage row

BY WILLIAM DAWKINS IN BRUSSELS

MR STANLEY Clinton Davis, European Commissioner for transport, has threatened to sue member states for failing to agree proposals for free competition in road haulage.

His threat came in an angry outburst at the end of a deadlocked meeting of EC transport ministers, at which West Germany, France and Italy blocked *Commission plans to phase out* long-standing bilateral arrangements setting quotas on the number of lorry journeys allowed across frontiers.

These contravene EC rules on the free movement of goods, according to a judgment two and a half years ago by the European Court of Justice.

"This is a deeply disappointing result," said Mr Clinton Davis, who added that he would con*sider asking for the European* Court's help if there was no progress in the next six months.

Until recently, West Germany was isolated in fighting the scheme, on the grounds that its own road freight industry would be put at a disadvantage. This is a consequence of the higher road taxes in West Germany, a point which the Commission tried to satisfy by promising to table plans to iron out *the discrepan*cies in national road taxes.

However, Bonn appears to have put pressure on France and Italy, *both of which were pre*pared to support the Commisson's plans earlier this week. The result is that the plan is now being blocked by a minority of member states.

This drew angry reactions yesterday from Britain, which along with the Netherlands is keen to see the removal of lorry quotas, which control around half of EC freight transport.

Ironically, the responsibility *for trying to unblock the* package will soon go to Bonn, when it takes over as President of the Council of Ministers for the first half of next year.

Agnelli names his brother as successor

BY JOHN WYLES IN ROME

MR GIANNI Agnelli has designated his brother, Umberto, as his successor as president of Fiat and Mr Vittorio Ghidella as the group's next managing director.

Mr Agnelli recently revealed his thinking on the future distribution of top jobs in Italy's largest company to a meeting of senior personnel at the company's management training centre near Turin.

His decisions will not come as any great surprise to Italian industrialists since it has long been assumed that the most senior position would be filled by an Agnelli. Since Gianni's son Edoardo is thought too inexperienced, Umberto, the 53-year-old younger brother, has long seemed the most likely.

However, the Avvocato, as he is known, left some room for speculation by declaring that members of the board of directors must retire at 75. This means that he could remain in situ for another nine years and, *in theory, that 56-year-old Mr* Ghidella, who runs Fiat Auto, might have to wait another 11 years before Mr Cesare Romiti, the undisputed number two to Mr Agnelli, has to step down.

However, it is understood that Mr Agnelli may either create a second managing director's job for Mr Ghidella or allocate other responsibilities to Mr Romiti. Those who are speculating on Mr Romiti becoming president next year of *Confindustria*, the main organisation representing Italian companies, may see some reason for shortening the odds as a *result of Mr Agnelli's decision.*

Although Mr Romiti is given most credit for managing the recovery of Fiat from the brink of bankruptcy at the turn of this decade, Mr Ghidella's has clearly been a rising star. A pronounced afficionado of the motor car, he has supervised the introduction of winnings such as the Fiat Uno and the Lancia Thema and on the past year has concentrated on turning around Alfa Romeo.

Umberto already has a number of senior responsibilities in the Fiat group, including the managing directorship of Ifi, one of its *main financial holding* companies. He was group joint managing director for several years in the 1970s and eventually made way for Mr Romiti.

Gibraltar MPs block air deal

By Joe Garcia in Gibraltar

GIBRALTAR'S House of Assembly yesterday effectively rejected the Anglo-Spanish accord on the Rock's airport reached earlier *this month. It decided unani*mously that the legality of the Rock's exclusion from an EC accord to liberalise air transport should be challenged urgently. Mr Adolfo Canepa, the new Chief Minister, told the House that legal advice had already been sought in Brussels.

The opposition-sponsored motion reiterated that the international use of the airfield "should be on the *basis that no* special privileges are accorded to Spanish airlines, passengers with a Spanish destination or the Spanish *aviation authorities.*"

Britain has agreed that Gibraltar should have the last word on acceptance.

David Marsh in Bonn looks at the soul-searching created by political scandals and growing unrest

Memories of Weimar haunt W German democracy

"WHY DOES Weimar keep coming up?" asks a senior Bonn official plaintively, referring to the recent spate of references in the media and by politicians to the breakdown of the pre-war Weimar Republic which ushered in Nazism.

It is an indication that West Germans, although living in one of the world's *most* open political systems, are *going* through another bout of agonising about the potential vulnerability of their 40-year-old democracy.

No one thinks West German democracy is heading for a Weimar-style graveyard. But senior politicians admit unease at what appears to be growing ossification of a parliamentary system which to the electorate appears increasingly obscure and even, on occasion, downright dishonest.

The *nationwide* reaction to the political scandal in the northern state of Schleswig Holstein and the killing last month of two policemen by militant demonstrators near Frankfurt has underlined how West Germans react with much greater sensitivity than other countries to possible threats to society.

In the wake of the October stock market collapse and fears of a worldwide economic recession, the worrying is accompanied by an anxious look back to *the economy* in the last days of Weimar. Because it set off a chain of events leading to Hitler's coming to power, the 1929 crash arguably has a stronger place in the collective German psyche than in other European countries.

The memory of past excesses is one reason why all sides are anxious to keep passions from spilling over in the upsurge of workers' discontent over Ruhr steel closures announced suddenly at the beginning of this month.

In a display of trade union anger said to be unprecedented since the *Federal* Republic was founded in 1949, last week saw mass protests and traffic blockades throughout the coal and steel region. This included the storming by 500 steel workers of the Villa Huegel in Essen, the dynastical home of the Krupp steel barons.

But, on the instructions of the North Rhine Westphalia state government, police did not intervene – in spite of protests from industrialists that the televised scenes of chaos were hardly the best way of attracting new investment to the Ruhr.

In part, the welling up of anxieties reflects the German habit of soul-searching. "We are a people of brooders," Mr Hans-Dietrich Genscher, the veteran Foreign Minister, says. "There is something Faustian in us. The permanent questioning, *the knowledge* that we can know nothing - that is something which is in every German. We make every question more difficult."

Memories of Weimar have been drawn on by both right and left during recent political discussions about law and order.

Following the outcry after the shooting of the two policemen – the first time under the Federal Republic that officers had been killed during a demonstration – the Government made a decision in outline on new measures on Wednesday. These centre on tougher penalties for protesters who wear masks at demonstrations.

Mr Alfred Dregger, the parliamentary floor leader of the conservative parties, warning that police must not be pushed *into a "passive-defensive" role,* reminded deputies in the Bundestag at the end of last month that the Weimar Republic went down in a tide of street fighting between Nazis and Communists.

It may not add up to a loss of faith in the parliamentary system, but there is *no doubt* of an increasing mood of cynicism and disenchantment about politicians among the electorate.

This has been heightened by the scandal in Schleswig Holstein over electoral "dirty tricks" organised by the late Mr Uwe Barschel, the state's former prime minister, who committed suicide in October.

A Schleswig Holstein parliamentary investigation during the last few weeks has undermined Mr Barschel's attempts to defend himself from allegations of launching a Byzantine smear campaign.

Mr Richard Stuecklen, the 71-year-old Bavarian conservative who is the only member of the Bundestag to have sat as a deputy continuously since 1949, says a gap has grown up between deputies and voters partly because of the complexity *of the subject matter of politics.*

Calling the acts of Mr Barschel "inexplicable and unforgivable," he says they have "damaged the standing of our democracy." And, recalling the crimes of Nazism, Mr Stuecklen adds that when political morality declines, "We know where the journey can lead."

Freitas seeks party comeback

By Peter Wise in Lisbon

MR DIOGO FREITAS do *AMARAL* said yesterday he would seek to regain the leadership of Portugal's Christian Democrat Party after quitting three years ago *in an unsuccessful bid* for the presidency.

Mr Freitas do Amaral, 46, who was narrowly beaten by former Socialist leader *Mario Soares in* the February 1986 presidential election, is unlikely to face serious opposition when a new party leader is elected *at a Christian* Democrat conference in January.

He was deputy Prime Minister five years ago when the Christian Democrats were at *their* strongest in a ruling coalition with the Social Democrats. He now faces the task of bringing new life to a party that has lost direction in his absence and suffered crushing electoral losses.

Fao warns on new Ethiopian famine

BY JOHN WYLES IN ROME

A WARNING of a serious new famine and loss of life in Ethiopia and a general food shortage in Africa's 45 developing countries was given yesterday by the UN's Food and Agriculture Organisation (Fao).

According to a special Fao report, this year's cereals production in the 45 countries will be 44.4m tonnes, 15 per cent below last year's level. This leaves them needing total food aid of 4.6m tonnes against donor pledges of 2.9m tonnes. So far they have received 900,000 tonnes.

Country representatives to Fao were told by *senior officials* yesterday that Ethiopia poses the most worrying problems in sub-Saharan Africa.

"In our view, only sustained international action in the coming weeks can avert widespread famine, human misery and loss of life in the months ahead," Mr Declan Walton, Fao deputy director general, said.

The briefing was enlivened by sharp exchanges between the US representative, Mr Eckert and his Ethiopian counterpart.

Mr Eckert said that one impediment to aid to Ethiopia had been the "outrageous" unloading fees charged by the Government. Also, priority had been given during the last food crisis to unloading armaments rather than food aid.

He asked for commitments that there would be no such problems in the future.

After *Mr Assafa Yilala*, the Ethiopian representative, said that he was unaware of the problems raised by Mr Eckert, the US *official asked* that Fao raise the issue at the UN.

East and W Germany swap three spies

EAST and West Germany swapped three prisoners each at a border crossing point yester*day, according to ADN,* the official East German newsagency, **Reuter reports from East Berlin.**

The agency gave few details, saying only that "three imprisoned people from each side" were exchanged at the crossing point at Wartha.

Government sources in Bonn said earlier this week that the two countries would exchange a number of spies, relatively minor figures, in the latest of a series of exchanges.

The sources had said three convicted East German spies would be traded for a "significantly higher number" of West German agents held in the East.

Mr Friedheim Ost, the West German government spokesman, yesterday said the exchange took place "in connection with the federal (West German) government's humanitarian efforts."

He declined to give any details, "in the interests of the people concerned."

The West German newspaper *Die Welt* reported on Wednesday that three agents from each side would be exchanged as part of a broader agreement worked out between Bonn and East Berlin lawyer Mr Wolfgang Vogel.

The last known spy exchange between the two countries was in August, *when Mr Manfred* Rotsch, the Communist aerospace spy, was traded for imprisoned woman doctor Ms Christa-Karin Schumann, *a friend of an* East German rear-admiral executed for espionage in 1979.

● East German Communist Party leaders have called for improvements in the supply and distribution of consumer goods, the party daily Neues Deutschland reported yesterday.

It reprinted a long Politburo report which listed a number of items in short supply in East German shops, including clothing, shoes and furniture, and called on all factories to boost production.

"The Politburo has ordered *ministers to build* on what has been achieved and further improve the range of consumer goods and to reach a production level that covers demand," it said.

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Canada finance institutions face higher tax rates

BY DAVID OWEN IN TORONTO

CANADIAN financial institutions as well as smokers and drinkers received an unpleasant surprise this week when Mr Michael Wilson, Finance Minister, unveiled the final draft of his tax reform package.

The overall thrust of the plan – to redistribute the tax burden by asking most individuals to pay less and corporations to pay more – remains essentially unchanged, however.

Financial institutions are to be taxed more than originally outlined in Mr Wilson's June white paper (discussion document) through the extension for two years of an existing capital tax which was temporarily imposed in an earlier budget.

Institutions which pay corporate income tax will, however, be able to deduct the capital tax from these payments. The measure thus amounts to a form of minimum tax for large banks and trust companies. Insurance companies are not affected.

Mr Wilson also announced a 3 per cent rise, effective January 1, in the rate of federal sales tax on alcohol and tobacco. This will boost the rate levied on both to 18 per cent and should raise an additional C$175m ($228.5) per year.

The top federal tax rate for individuals, effective next year, will be reduced to 29 per cent.

This will mean, according to Mr Wilson, that "personal income tax will be reduced for 9.7m households - 85 per cent of the total."

While the basic corporate tax rate will fall to 28 per cent, this will be more than offset by the effect of broadening the corporate tax base and eliminating various tax-breaks and loopholes.

"The changes being proposed will reduce by one-half the number of profitable corporations that pay no tax," Mr Wilson projected.

Sarney stops cuts effort

BY OUR BRAZIL CORRESPONDENT

PRESIDENT Jos´e Sarney of Brazil again has severely curtailed the efforts of Mr Luiz Carlos Bresser Pereira, Finance Minister, to trim Brazil's public sector deficit.

He has vetoed an immediate closure of 15 small public enterprises and insisted that key elements in a new fiscal package be presented for approval to Congress, where they are liable to be watered down. In compensation, the president is said to have promised to approve more substantial cuts in spending next year, but these will only take place after negotiations with the ministries involved.

The limitation of Mr Bresser's controversial proposals to no more than changes in taxation will provoke a new howl of anger from the business community.

Among other measures postponed by the president were plans to introduce a wealth tax and a capital gains tax.

Moscow sets terms for ending aid to Managua

BY OUR WASHINGTON STAFF

THE SOVIET UNION said yesterday that it would only halt military aid to the Nicaraguan government if the US agreed to refrain from sending weapons to the right-wing Nicaraguan Contra rebels.

Moscow's statement sought to clarify remarks by President Ronald Reagan, who said this week that Mr Mikhail Gorbachev, the Soviet leader, during the Wasington summit this month, had made a unilateral offer to stop arms shipments to the Nicaraguan government. The Soviet offer was in support of the Central American peace plan, Mr Reagan said.

Mr Reagan's remarks have caused confusion in Washington, which has been grappling with claims made by a senior Nicaraguan official, who has defected to the US, that the Nicaraguan government has plans for a massive military build-up on the back of Soviet military aid.

Gen Humberto Ortega, the Nicaraguan Defence Minister, delivered a speech at the weekend confirming the bulk of the story: Managua's long-term plan to double its armed forces and reserves to 600,000 by 1995.

All this has helped shift several key votes in Congress, which now appears set to approve a further batch of non-lethal aid to the Contra rebels. Under discussion by House and Senate negotiators is about $9m in such aid and at least another $6m to cover transportation.

Some commentators have noted the apparent inconsistency in Mr Reagan failing to use the defector's disclosures in his brief private talk with Mr Gorbachev. The answer is that they were for Congressional and US public consumption only.

The one loser this week is the House Speaker, Mr Jim Wright. Gen Ortega's speech has undermined Mr Wright's stand that Nicaragua is seriously committed to peace in the region.

Dole likely to announce support for INF treaty

BY STEWART FLEMING IN WASHINGTON

SENATOR Robert Dole, his campaign for the Republican Party's Presidential nomination buffeted by charges that he is being indecisive on arms control, yesterday was expected to announce his support for the Intermediate nuclear forces treaty.

To the chagrin of Mr George Bush, the Vice-President and Senator Dole's chief rival for the Republican nomination, the announcement is expected to take place at the White House where the Senator will be accompanied by the President himself.

The manoeuvrings by the two Republican front-runners also underscore the highly-charged politicalatmosphere building up as the first major tests of their strength, the Iowa caucuses on February 8 and the New Hampshire primary on February 16,loom into view.

Vice-President Bush has been exploiting his loyal support for President Reagan's INF Treaty and the high profile he adopted during the visit of Mr Mikhail Gorbachev, the Soviet leader.

The Vice-President then began a publicity campaign in Iowa designed to emphasise the image he is seeking to present as a "co-pilot" in the Reagan Administration, and Senator Dole's apparent indecisiveness.

Opinion polls showing some erosion in Senator Dole's support in Iowa, where he has been the front-runner, suggest this approach has paid off.

Mr Bush's advisers are seething at Mr.Reagan's decision to give the Senator a White House platform.

For Mr. Reagan, however, having Senator Dole line up behind the INF Treaty before Senate hearings begin next month, is a clearplus.

As Senate Republican minority leader, his will be an influential voice in the ratification process.

Mexican rates at record

BY DAVID GARDNER IN MEXICO CITY

MEXICAN INTEREST rates have reached all-time highs, despite the unveiling this week of a plan to bring inflation under control.

The rate on the benchmark three-month Treasury bill (Cetes) now stands at 137 per cent, following a rise of nearly eight points this week, and is up 42 percentage points on the level at the beginning of October, just before the stock market crash.

If the overall rise in rates since October were to persist over a year, that would add to government borrowing about the 6,000 bn pesos ($2.7bn) it is expected to cut from current and capital spending in 1988 as part of the plan this week. But the addition would be purely to the interest bill on the domestic debt.

The total interest bill on public sector debt for this year, forecast a month ago, was equal to 21 per cent of GDP, against a nominal budget deficit of 17.4 per cent of GDP.

Although the domestic public sector debt is about a third of the total $103bn foreign debt, interest payable on it is now more than three times interest on the foreign borrowings, or more than 15 per cent of GDP.

In the face of a swelling fiscal deficit, inflated by unruly domestic indebtedness, the Government had insisted during the last 18 months that it is "inertial" inflation which is causing the deficit and not *vice versa*.

Even the International Monetary Fund accepted this in its 1986 agreement with Mexico, which recognised the "operational deficit" – the deficit, or as Mexico claims, surplus, left after the portion of interest payments caused only by inflation is discounted – as the best measure of Mexico's budgetary adjustment.

Although the spending reduction in real terms since the 1982 financial collapse has been nearly 10 per cent of GDP – and real wages, as measured by the purchasing power of the benchmark minimum wage, have been halved by inflation – the Government has ignored its own arguments and chosen to emphasise further wage and budgetary restraint to cope with price rises now running officially at 144 per cent a year.

Part of deficit cut passed by Senate

By Lionel Barber in Washington

THE US SENATE has passed the bulk of a two-year, $76bn plan for reducing the budget deficit, as set out in the accord last month between Congressional leaders and the White House.

The Senate vote on Wednesday removes one more obstacle to the budget package, which will take final shape in joint talks between the Senate and House of Representatives before it goes to the president for signature.

The US Congress is racing to complete the mix of tax rises and spending cuts before the end of next week, when a measure to finance temporarily the government's operations expires. Financial markets have been unsettled by the lack of progress on cutting the budget deficit, which amounted to $148bn in fiscal 1987.

The Senate measures would raise $9bn in taxes and cut spending by about $13.5bn in the current fiscal year. A move by disgruntled Republicans, who wanted deeper cuts in spending, was easily defeated by 71-25 votes.

Nancy Dunne in Washington profiles the longest-serving member ofthe US Cabinet

Reagan's 'Silent Sam' stands his ground

THE LAST remaining member of the original Reagan Cabinet is a reticent, little-known man whose tranquil tenure at the Department of Housing and Urban Development has been disturbed only by the sound of his budget axe.

No Cabinet secretary has taken more to heart the "Reagan Revolution" – the injunction to eviscerate as many federal social welfare programmes as possible – as Mr Samuel Pierce. The department's once fleshy budget has been slashed from $35.7bn (£19.5bn) in financial year 1980 to $14.2bn in the 1987 financial year, while the number of employees has shrunk from 15,600 to 12,000.

This achievement has not been without controversy in Washington, particularly as the public housing supply has begun to deteriorate and the estimated 2m to 3m homeless have become a fixture in the landscape of most US cities.

At 65, "Silent Sam" takes comfort from the message he perceives in the recent stock market collapse. "I said to myself: 'Thank God I did everything I could.' If we had all done as much, there wouldn't have been a budget deficit," he said in a recent interview. The Secretary's commitment to budget cuts is rooted in his memories of the bread lines in the Great Depression.

"Unless we get things straightened out, we're going to go back there again," he said. "When we hit that, we won't be able to help anyone." Mr Pierce's critics portray him harshly as an uninformed quisling who has outlasted all others in the Reagan Cabinet because he is a convenient front man for an unpopular job.

He is, rather, a committed long-time Republican, who was allied to the party's liberal wing in his native New York. In a long career in law and government, he broke new ground as a black man.

His lengthy resume includes a law degree from New York's prestigious Cornell University, which he attended on a football scholarship. He was the first black to be a partner in a big New York law firm, the first to become director of a Fortune 500 company and a founder of Freedom National Bank, the first New York bank with predominantly black senior managment. In the Nixon Administration, he served in the Treasury in the highest post every held by a black.

Initially, he made a good impression on Capitol Hill. He told the then Republican Senate that although he would not neglect the poor and elderly, "reliance on government programmes, no matter how well intentioned, simply hasn't worked. It's time to try something new." His initiatives, however, have been obscured by the issue of homelessness and the growing scarcity of low-cost housing in many areas of the country.

Little attention has been paid to Mr Pierce's efforts to increase the capital available to finance mortgages by selling mortgage-backed securities in Europe, Japan and Singapore. He has received almost no credit for his insistence within the Administration on strengthening the Fair Housing Anti-discrimination Law.

He battled and won against Mr David Stockman, when the budget director wanted to slash government guarantees for low and mid-priced housing loans, and his Joint Venture for Affordable Housing, a scheme to deregulate the building industry and cut housing costs, has now spread to 50 states.

The Department has also introduced a number of small and unpublicised tenant management, job training, self-sufficiency and drug programmes in the public housing ghettos. But Congress has turned a deaf ear to the Secretary's pleas to set up "enterprise zones" to encourage businesses to move to depressed urban areas.

Asked by President Reagan in 1984 to revive and strengthen the US-USSR agreement on housing and construction, the Secretary made five unpublicised journeys to the Soviet Union to boost the US construction industry.

Last June he led more than 100 US firms participating in an international building exhibition, where he called for "a new spirit of co-operation and understanding" in working and trading between the superpowers. Mr Vincent Curcio, vice-President of the American Standard Corporation in South Carolina, whose company is one of 64 now dealing with Soviet construction officials, said the Secretary impressed the Soviets as "statesmanlike."

what was essentially a boost to service exports, was "odd."

Meanwhile, at home, there are, says Mr Gordon Cavanaugh of the Council of Large Public Housing Authorities, an estimated 1m families on waiting lists for public housing and 12m more who need housing assistance. Only one-fifth of the households eligible to receive federal housing assistance are getting it.

The Senate recently derailed the first big housing bill in seven years, which would have provided $15bn over two years for housing programmes for the poor, the elderly and the handicapped. Mr Pierce had recommended a presidential veto. "I want as many Americans as possible to realise the American dream," Mr Pierce said.

"But in days gone by this country has thrown a lot of money at problems and it hasn't solved them. People have to pay for things or they won't take care of them."

A $1bn bill signed by the President in July was supposed to provide emergency housing assistance. The department was indicted in a recent congressional report for having delayed distribution of funds to the estimated 2m to 3m homeless.

Mr Pierce is philosophical about the criticism. "It's easy to give money away," he says. "When you're passing it out, everyone's your friend." He lets the criticism "roll off me...If I feel I'm doing right, I don't give a damn what someone else says."

Welfare tough line

THE US HOUSE of Representatives has passed a controversial bill aimed to divert poor people from any dependency on government welfare programmes by establishing new work requirements for most parents who receive such aid, AP reports from Washington.

Mr Gary Bauer, one of President Ronald Reagan's domestic advisers, said he would recommend a veto if the welfare bill were to reach the president's desk in its current form.

This is considered unlikely, however, because 56 senators are sponsoring another version of the welfare measure. Action on the Senators' bill, a less generous plan, is expected early next year.

OVERSEAS NEWS

SOUTH KOREAN ELECTION

Roh sweeps home, but search for genuine legitimacy goes on

BY MAGGIE FORD IN SEOUL

Roh Tae-woo: tough times ahead

VOTERS in South Korea woke up yesterday to discover that efforts to elect an opposition candidate to the presidency had failed.

With 36.4 per cent of the total vote, Mr Roh Tae Woo, candidate of the ruling party and hand-picked successor to President Chun Doo Hwan, had come top of the poll.

By nightfall, some voters began to fear that something could be wrong with the result. The main victim, if their suspicions are true, seems to be Mr Kim Young Sam, who came second with 27.2 per cent. But Mr Kim Dae Jung, the second opposition candidate, also believes he has cause for complaint.

Before polling day some analysts saw Kim Young Sam as a slight favourite to gain the most votes. In the event a margin of almost 2m votes separated him from Mr Roh.

Depression among Mr Kim Young Sam's supporters set in early on Wednesday night when first returns showed that he had scored only about 50 per cent of the vote in his home town of Pusan, South Korea's main industrial city, and the surrounding Kyongsang province. In the adjacent province, home area of Mr Roh, Mr Kim had been expected to do quite well, but managed only about 24 per cent.

The gloom was compounded when it became clear that Mr Kim was coming in third in Seoul, the capital, where about 25 per cent of the total voters live.

The Seoul result had been expected to be a close race between the two Kims. Observers were predicting a late surge for Mr Kim Dae Jung, and in the event he topped this poll with 32.4 per cent. Mr Roh came second with 29.5 per cent and Mr Kim Young Sam third with 28.4 per cent.

If the overall vote is confirmed as fair, then it points to an exceptional upsurge of regional feeling in favour of the government's candidate.

Mr Kim Young Sam gathered hardly any votes in the the two Cholla provinces, stronghold of Mr Kim Dae Jung, which is not surprising. Cholla's native son recorded between 80 and 94 per cent of the votes in the region and was helped to the winning position in Seoul by a strong turnout of extremely enthusiastic immigrant supporters.

Nearly 1m Cholla-born people live in Pusan, about 25 per cent of the voters, but surprisingly, Mr Kim Dae Jung won only 9 per cent of the vote there, with 32 per cent going to Mr Roh. Mr Kim also yesterday questioned the figures in Inchon, an industrial city near Seoul and in Kyonggi province, surrounding Seoul, where many Cholla-born voters and poor workers live. Mr Kim came in third, with 21 per cent of the vote in both areas. The winner was Mr Roh with 38.7 per cent in Inchon and 41 per cent in Kyonggi.

While regional rivalry has been stirred by violent incidents during the campaign, observers cannot see why this should prompt a switch in support from Mr Kim Young Sam to Mr Roh. Both are from the same region. Although Mr Kim was the subject of scurrilous rumours in the final week of the campaign, they were thought likely to affect floating voters, not his strongest supporters. Voters in Pusan and surrounding areas have voted loyally for Mr Kim for years, and he should have gained around 70 per cent of the poll.

Analysts offered a number of reasons why voters may have switched to Mr Roh. Skilful use of television and the press by the Government side extracted full mileage from the disappearance of the Korean Air jetliner two weeks ago, allegedly bombed by North Korean terrorists. A woman suspect arrived in Seoul on the night of the election.

The appearance on television of Mr Paik Ki Whan, a minor presidential candidate who attracted great interest before he dropped out of the race, was followed by showings of a documentary film suggesting that Mr Paik's ideas were in line with those of Coomunist North Korea.

Analysts believe that some voters may have been frightened by this into voting for Mr Roh, who has in any case had the benefit of favourable television coverage throughout the campaign.

He has also had the Government machine of officials and employees to help him, especially local council chiefs.

A number of instances of fraud have been detected at voting booths, involving missing or switched ballot boxes, but not enough to influence the vote as a whole, observers believe.

It is, of course, possible that voters decided genuinely to opt for the stability and gradual change which Mr Roh has promised. His winning margin, if fair, leapfrogs the 500,000 military vote, widely thought to be biased towards him.

Many voters have given him credit for his declaration in favour of democracy after the June demonstrations. But doubts are beginning to grow. Many voters, especially those under 40 in Seoul, were last week planning to support one of the Kims, along with most of their friends and a surprisingly large number of their parents. Only they can know if they had a last minute change of heart in the polling booth.

As Mr Kim Dae Jung said yesterday, it will be up to the voters to decide whether they think the vote was fair, and the candidates will respect their decision.

Yesterday riot police were again seen on the streets of Seoul, but students stayed away. For Mr Roh, genuine legitimacy may not be as easy to win as he thought.

NZ tax changes to create jobs and stop dodges

BY DAI HAYWARD IN WELLINGTON

A WIDE-RANGING programme of tax and economic reforms, designed to encourage the unemployed and other welfare beneficiaries to seek work, was announced yesterday by the New Zealand government.

The measures are also aimed at increasing productivity, attracting investment, creating more jobs, cracking down heavily on tax loopholes and tax avoidance, and reducing the government debt.

The main features of the package are the introduction of a single personal tax rate, a reduction in company tax, the reform of domestic tax laws for international company operations, an increase in the goods and services tax and cuts in tariffs.

The government also wants to sell NZ$14bn (£4.9bn) of government assets, remove tax concessions for superannuation and life insurance premiums and introduce a guaranteed family income.

Mr Roger Douglas, Finance Minister, claims the new measures will make New Zealand a world leader in taxation and benefit reform. It will be the first country in the world to introduce a single tax rate, to come into effect next October. "No other country has had the drive, the vision or the courage to introduce such a tax system," he said.

More than 250,000 New Zealand families on low or middle incomes currently pay effective marginal tax rates of 48 cents in the dollar.

The goods and services tax, New Zealand's value-added tax, will be increased from 10 per cent to 12.5 per cent in October to help finance the indirect tax reforms now being introduced. The increase will provide an extra $800m GST revenue this year.

The government will sell $1bn of state assets over the next five years to help reduce the $42bn foreign debt by one third by 1992. At present one in every $5 of government expenditure goes to service what Mr Douglas called "our huge legacy of inherited debt".

A substantial reduction in company tax is a cornerstone of the economic package. Big companies devote huge amounts of time and effort to avoid paying company tax at 48 cents in the dollar. Last year eight of the country's top 20 companies paid no tax, largely through the use of loopholes and by transferring operations through offshore subsidiaries. The loopholes will now be plugged.

Domestic companies will no longer be able to accumulate tax-free income in overseas trusts. Under the new regime, New Zealand shareholders will pay tax on the undistributed income of the offshore trusts, nor will companies be allowed to issue the kind of bonus shares which have been used for tax avoidance. These are to be taxed in the same way as dividends. Companies will not be allowed to make non-taxable distributions from capital gains when a company is wound up. All distribution to shareholders will be regarded as dividends and taxed accordingly.

As part of its widespread attack on tax privileges, the government will remove concessions on medical, sickness and accident insurance schemes. Premiums are to be taxable.

Congress likely to approve Stinger sale

By Andrew Gowers

The US Congress looks set this week to approve the sale of 70 sophisticated Stinger missiles to Bahrain in an important gesture of support for the Gulf emirate.

Congressional negotiators agreed on Wednesday night to a Senate provision, attached to a funding bill, which would allow the Reagan administration to sell Bahrain 70 of the shoulder-held missiles and 16 launchers.

Although the value of the deal – at $7m – is relatively small, it is seen by the Administration as a vital boost for Bahrain's air defences, and a gesture of thanks for the Emirate's close co-operation with US naval operations in the Gulf.

Advocates of the deal argue that Bahrain had been a solid US ally for 40 years, and provides the headquarters for Washington's Middle East Force, a facility which has become especially valuable since the US began its military build-up in the region this year.

However, the proposed sale had also become the subject of a familiar political tussle, with some legislators arguing that the weapons could fall into the wrong hands and be used against the US or Israel. The argument was additionally complicated by embarrassing reports that Iran has obtained Stinger missiles from Afghan rebels.

Carla Rapoport assesses the first weeks of Japan's new Premier

Takeshita buys time for reform

JAPAN'S new Prime Minister, Mr Noboru Takeshita, made his international debut this week in Manila, playing Father Christmas with hefty bundles of aid and loans for Japan's Asian neighbours.

It was a flawless performance with little drama or excitement. As a result, few at home or abroad are any wiser as to what makes Mr Takeshita tick.

Unlike Mr Yasuhiro Nakasone, his showy predecessor, he remains unwilling to make a forceful show of leadership in the early days of his administration. An unknown quantity to most Japanese as well as to foreigners, Mr Takeshita rose to the top by building up a power base within the ruling Liberal Democratic Party, not by winning the affection of his fellow Japanese.

Even before the Asean meeting in Manila, it appeared that Mr Takeshita had already made an international fumble over something as lowly as tomato ketchup. Earlier this month Japan-watchers in the West were stunned when Mr Takeshita's young administration rejected a Gatt order to remove import barriers on 10 agricultural products.

The list of disputed items looked astonishingly trivial, ranging from tomato ketchup to processed cheese and pineappples. The rejection appeared to be damaging for the Prime Minister in terms of his crucial relations with Washington and his image abroad. But did Mr Takeshita really stumble?

Noburu Takeshita: wily

There is another interpretation of events. Japan's little-known Prime Minister, a backroom politician with a flair for consensus politics, was not so much dismissing the Gatt ruling and Washington's wishes out of hand as using the rejection in Geneva to placate critics at home. If this is the case, it may bode well for Mr Takeshita's future.

Japan needs to liberalise its agricultural markets, particularly its beef, orange and, ultimately, its rice market. Mr Takeshita and Japan's leading bureaucrats know this. But they also understand the strength of Japan's agricultural lobby and its strong conservatism. Mr Takeshita's recent rejection of the Gatt order was not so much one of contrariness as a bid for more time.

Foreign Ministry officials privately admit as much. Officially, Japan is "still considering" the order to scrap tariffs on two of the items and has agreed to lift the rest. This delaying tactic has strengthened Mr Takeshita's hand with Zenchu, the powerful agricultural co-operative, which remains opposed to any kind of liberalisation of Japan's food markets.

His action, or inaction, on the Gatt issue shows that Mr Takeshita fully deserves his reputation as a wily political operator. In buying more time for his talks with the farmers, Mr Takeshita stands a chance of gaining the co-operation of the agricultural lobby and paving the way for more substantial reform in classic Japanese fashion.

Mr Nakasone was easier for foreigners to understand because he was a brilliant communicator. He enjoyed both the attention of the world media and the approval of almost every foreign government. But his record on domestic issues was patchy. His efforts to reform Japan's iniquitious tax system earlier this year led to his fall. He had failed to do the necessary political spadework needed for such radical change.

The new premier, however, is making no such mistake. A few days ago, for example, Mr Takeshita's new programme for an indirect tax secured the support of Japan's powerful Chain Store Association. "He may not be as showy, but he is not making promises he can't keep, like Nakasone. He's doing the behind-the-scenes work first," the managing director of one of Japan's largest investment trusts said this week.

This kind of spade-work will be essential to achieving any kind of substantial reform of Japan's agricultural sector.

But these views are still vigorously denounced by Japan's farmers. The Gatt case is a good example. The value of trade under consideration by the Gatt is miniscule in terms of Japan's trade with the rest of the world. In 1986, Japan's imports of these goods totalled about $75m (£41m).

Even so, it controls the distribution of many of these imports, imposes steep tariffs on others and maintains an outright ban on rice purchases so that locally-grown produce and local jobs will be protected. The end result is that most food in Japan is much more expensive than in other countries. Rice, for example, sells for about eight times the world price.

The work ahead of the new premier on agricultural reform extends beyond food. Japan's tax structure means that farmland in urban areas remains farmland, even though the space is desperately needed for houses, gardens and parks.

These problems require a politician with some ability to haggle. Mr Takeshita may just fit the bill.

Palestinian protests die down

By Andrew Whitley in Jerusalem

EXHAUSTION and a massive show of force by Israeli troops combined to dampen Palestinian protests in the occupied territories yesterday, as the Government of Mr Yitzhak Shamir began to grapple with the severe dent in the country's international image caused by its handling of the unrest.

Isolated disturbances broke out during the day in Gaza and the West Bank, as well as Arab East Jerusalem. But they lacked the passion and vehemence of preceding days, and few casualties were reported.

In Israel, criticism mounted at the government's lackadaisical response to the crisis - the worst since 1981 - and its apparent determination to treat the issue simply as a law-and-order question. Sharp editorials have questioned the way in which senior ministers, notably Mr Yitzhak Rabin, the Defence Minister responsible for the occupied territories, have stayed abroad.

Overshadowed by the turmoil closer to home, Israeli troops in southern Lebanon have been in action for the third day against Moslem guerrillas. The army said six guerrillas were killed during a four-hour clash in the "security zone", which left no losses on the Israeli side, though several members of the Israeli-backed South Lebanon Army were reported either killed or injured.

Iraq claims Iran is still buying arms in London

BY ANDREW GOWERS, MIDDLE EAST EDITOR

IRAQ has told Britain that it believes the Iranian oil company office in London is still being used for the purposes of arms buying despite the closure of Iran's military procurement offices in the British capital more than two months ago.

Diplomats say Mr Mohammed Sadiq al-Mashat, the Iraqi ambassador, has complained to the Foreign Office that the National Iranian Oil Company, with offices in London's Victoria Street, has brought in additional staff to handle weapons procurement in recent weeks. Foreign Office officials say they have frequently received Iraqi complaints about alleged Iranian arms buying activities, and that they constantly monitor NIOC's activities in London.

The allegation of continued Iranian arms buying from Britain is potentially embarrassing in the light of growing international pressure for a mandatory embargo on weapons sales to Tehran. It also coincides with the disclosure that the British Ministry of Defence still has a sales office in Tehran. The Ministry confirmed yesterday that its International Military Services office in the Iranian capital was still open, but said it was carrying out purely administrative functions, especially pursuing debts incurred by Iran.

Britain ordered Iran to close its London arms buying office – an important link in Tehran's worldwide military procurement network, located in the NIOC offices – in late September, and all its staff have subsequently left the country.

The Iranians are subsequently believed to have set up a similar office in Frankfurt. But Iraq believes that additional staff have joined NIOC in London to carry out the same functions on a smaller scale. Beyond saying that the Government keeps a constant watch on NIOC activities, the Foreign Office could not confirm having received the latest protest.

WORLD TRADE NEWS

Italy plans to step up export promotion

BY JOHN WYLES IN ROME

ITALY is planning reforms to step up its export promotion efforts after a L7,000bn (£3.57bn) deterioration in its trade balance this year.

Mr Renato Ruggiero, Minister for Foreign Trade, said yesterday he would be introducing a draft law early next year to update the powers and activities of Sace, the Italian export credits insurance agency.

"We have to provide public services to sustain trade and exports which are comparable to those provided by our main competitors, France, West Germany and Britain," he said.

Mr Ruggiero implied that the final shape of legislation had not been decided but that Italy needed stronger export promotion in view of the reduced prospects for world trade and economic growth next year.

Italian exporters "have not done badly" this year despite the fall of the dollar and the temptations to supply the home market in a situation of very strong domestic demand. He forecast that the 1987 trade deficit would be around L11,000bn compared to L3,722bn last year. Tourism and other invisible earnings meant that the current account would finish broadly in balance.

The Minister, who was head of the Italian Foreign Ministry until July this year, revealed that he is planning a changed role for his ministry in view of the gradual lifting of Italian exchange controls and the European Community's 1992 deadline for creating a free internal market. "We shall have to concentrate much more on promoting and co-ordinating our trade effort," he said.

His reforming approach is already being reflected in changes being carried through at Ice, the Italian export promotion agency.

Five consortia bid for Ankara metro project

BY DAVID BARCHARD IN ANKARA

FIVE international consortia are bidding for a turnkey contract to build the first stage of a metro system for Ankara.

The project comprises a 16km rail line, 3km of which will be underground, with 12 stations extending from the city centre to Batikent, a new suburb about to be completed.

Bidders for the first stage include UTDC (Urban Transit Development Corporation) of Canada with the local companies Gama Endustri and Guris ($521.8m); Interinfra of France with the local group Enka ($544.8m); Bouygues of France with Insaat ($662.2m); Siemens of West Germany with Kutlutas ($565.9m), and Asea of Sweden with Yapi Merkez ($708.8).

The Canadians appear to be leading the field, not only as lowest bidder, but with a proposal which requires government financing of only 37.7 per cent, against about 70-80 per cent for the other bids.

Canadians, Alsthom in high-speed train link

By Paul Betts in Paris

ALSTHOM, the heavy engineering subsidiary of the French Compagnie Generale d'Electricite (CGE) group, has joined forces with Bombardier, the Canadian railway equipment maker, to promote France's high-speed train (TGV) technology on the North American market.

The French company, the world's leading manufacturer of railway equipment, hopes the new alliance with its Canadian rival will help its technology compete more strongly against Japanese rival high-speed train systems.

Alsthom has so far been frustrated in its efforts to sell its high-speed train technology in the US, where several projects, including ones in Florida and Texas and a link between New York and Montreal, are under consideration.

Apart from the US projects, Canada has also been considering high-speed train links between Quebec, Montreal, and Toronto and between Calgary and Edmonton.

During the past few years, France has become a leader in high-speed train technology but has so far failed to export its system abroad. However, it is now hoping to extend the TGV to other European countries.

Swiss-Soviet project

Hopf, the privately-owned Swiss company, has entered a joint venture with the Soviet corporation Rossinvaluttorg to set up a £43m shopping centre in Moscow, **John Wicks reports.**

This follows a report that the Portuguese retail group Planco is to supply goods, know-how and technical facilities to a new Moscow supermarket.

Maggie Ford in Seoul reports on the increasing demand for private vehicles

Car sales accelerate in S Korea

FOUR YEARS ago, drivers in Seoul enjoyed some of the best conditions in the world. Many of them were chauffeurs, piloting their back-seat bosses to appointments in black mini-limousines.

All cars were Korean-made because imports were banned. Few cars were privately owned because that was a luxury even middle-class people could not afford.

The country's rapid growth has pushed up incomes and expectations and the implications for both the motor industry and the traffic planners are substantial. Every day, 300 new cars are bought in Seoul, more than two thirds by private drivers, and domestic demand is expected to rise 40 per cent this year.

Since the development of South Korea's car industry, production has been geared to exports, especially to the US. Three motor manufacturers, Hyundai, Daewoo and Kia, are expected to export around 700,000 cars this year, mostly sub-compacts. The target next year will rise to 800,000 units.

Hyundai Motor, which is planning to launch its "Y-car" (as yet unnamed) on to domestic and export markets next year, is building a new plant which will increase capacity in about three years to 1m units.

It is also localising more parts production, such as automatic transmissions, to reduce costs and improve reliability. Transmissions made in the Philippines are at present imported from Mitsubishi of Japan, which has a 15 per cent stake in Hyundai Motor, but the company has had supply problems, along with the high yen.

At present, it sells about 20 per cent of its production at home, but hopes to balance sales at about half domestic, half export over the next few years.

Plans by the Ministry of Trade to reduce tariffs on imported cars and taxes on locally made vehicles are likely to boost domestic demand further next year.

In line with the Government's policy to open markets to foreign goods, imports of foreign cars with engines over 2 litres were officially allowed from July. Red tape has initially held up sales, but Trade Ministry officials say that regulations have now been relaxed.

Taxes and tariffs will be a severe deterrent to potential buyers of Volvo, Mercedes, BMWs or expensive Japanese cars (US and UK producers have not yet seriously attempted to penetrate the market).

In addition to an import tariff of 50 per cent, buyers must pay VAT, a special consumption tax, a defence tax and an acquisition tax, as well as buying a "subway bond" costing 6 per cent of the purchase price. Proceeds of the bond are used to help finance the heavily indebted Seoul underground railway. These taxes effectively triple the cost of imported cars and double the cost of locally made cars.

South Koreans have, nevertheless, rushed to buy smaller sub-compact cars this year. The cheapest option is the Pride, made by Kia Motor in which Ford has a stake, retailing at Won3.72m ($4,659 at current rates), including tax of Won744,000.

The Daewoo Lemans sub-compact retails at Won4.94m, including tax of Won988,673. The Hyundai Steller, a medium-sized family car, costs Won5.7m, including tax of Won1.36m

Observers believe that the rapid rise in professional incomes fuelled by the export boom, along with a surge of women drivers, has created a growing interest in private car ownership. Local manufacturers may be unable to meet demand while maintaining exports until new capacity comes on stream.

The South Korean Government has pledged to open its markets fully in the next two years and to reduce tariffs on large imported cars by 10 per cent a year.

Observers believe, however, that the market has potential for some European manufacturers of smaller cars and could develop in the next two or three years if South Korea continues its strong growth.

However, enthusiasm for car ownership may be dampened, especially in Seoul and Pusan, if traffic congestion is not dealt with soon. Traffic jams during the autumn holidays reached up to 50 miles and journey times rose from two hours to as many as 10.

Since then, city traffic has exposed the inadequacy of the road system, provoking strong criticism of planners for failing to anticipate growth of car ownership. In a country of 43m people, still owning only 1.5m cars, potential expansion is large and likely to be rapid. As Seoul drivers sit in a queue, they wonder whether the planners can catch up.

US textile industry on the mend after recession

BY NANCY DUNNE IN WASHINGTON

THE US textile industry, which is seeking protection from imports, said it was recovering from its 1984-85 recession, despite the expected 20 per cent increase in the textile and apparel trade deficit for 1987.

"The heavy capital spending during recent years is paying off," Mr Robert Laidlaw, president of the American Textile Manufacturers Institute, said.

Improvements have been recorded over 1986 in shipments, employment and wages. However, the industry is still seeking passage of a bill which would set quotas on imports of textiles and clothing from all countries. It passed the House by an overwhelming 263-156 and is expected to pass the Senate.

Radio Marconi joins Lisbon telecom venture

BY DIANA SMITH IN LISBON

RADIO MARCONI, Portugal's semi-public international telecommunications corporation, is to join a consortium that will lay a new optical fibre telecommunications cable between Portugal, France and the UK.

The consortium is led by Britain's Cable and Wireless and the French telecommunications corporation. The total investment in the cable, which is expected to come into operation in 1991, when the useful life of the existing cable expires, will be about $100m according to Radio Marconi.

Marconi will be responsible for about a third of this investment.

Portugal is gradually converting to digital switching and the new cable will be the first telecommunications cable emanating from Portugal to carry digital equipment.

Tate and Lyle signs tea pact in China

By David Dodwell in Hong Kong

TATE & LYLE, the UK company best known for its sugar refining interests, yesterday signed its first joint venture agreement in China - to package and export tea.

The deal comes at a time when Tate & Lyle is exploring the possibility of ventures in China refining sugar. It is also seen as one of a series of moves in Asia aimed at building up a substantial tea manufacturing business.

The group set up a tea division just six months ago, which embodies tea estates in Malaysia, Sarawak and Sabah, as well as the new venture in China. The group recently agreed a compensation trade venture in Burma - believed to be one of the first foreign ventures established in the country - to help in the renovation of a tea plantation in the Karen region.

The Chinese venture, in which Ringgit 2m (£540,000) has been invested, involves a Singapore-based subsidiary of Tate & Lyle with a 50 per cent stake, and three Chinese partners sharing the remaining 50 per cent. It will be based in Ningbo, in Zhejiang Province, south of Shanghai. Mr Mike Waring, managing director of Tate & Lyle (Malaysia), signed the deal in Shanghai yesterday.

The venture will use imported Italian tea-bagging machinery to blend and package black and green tea, with about 50 per cent of output to be exported.

Ningbo was chosen in part because of high-quality tea plantations in the area, and partly because of an introduction by Cluff Investment and Trading, a Hong Kong-based subsidiary of Cluff Oil, which has a deal with the Ningbo municipal government aimed at attracting foreign investment into the region.

Jobless figures bolster optimism on economy

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

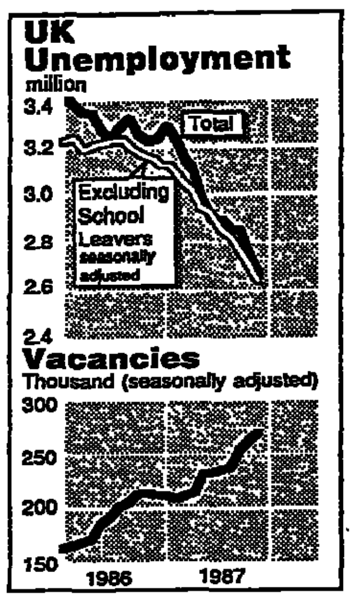
THE GOVERNMENT yesterday reported another sharp fall in the official unemployment total, providing further evidence of the buoyant pace of growth in the economy over the past few months.

The Department of Employment said that the number of people receiving unemployment benefit fell by 63,500 to a seasonally-adjusted 2.649m in November, marking the 17th consecutive monthly decline.

Since June 1986, the total has fallen by 563,700 and is now at the lowest for five years. Mr Norman Fowler, the Employment Secretary, said that the figures reflected the strength of the economy and that prospects for employment were now better than for many years.

He warned, however, that a rise in the underlying rate of growth of average earnings to an annual 8 per cent in October from 7¾ per cent the previous month was an unhealthy sign. Higher pay settlements would threaten Britain's competitive position, which was crucial to further falls in the jobless rate next year, he said.

For the Labour Party, Mr Michael Meacher welcomed last month's fall but said that the downward trend largely reflected a Government campaign to discourage benefit claimants. Measured against the number of people looking for work, the proportion with jobs had not improved at all in recent years, he said.



Whitehall officials said yesterday that the pace of decline in the unemployment total appeared to have accelerated over the past few months, and the underlying monthly fall was now put at around 50,000.

The Government acknowledges that part of the decline since mid-1986 reflects the expansion of special jobs schemes – particular the Youth Training Scheme (YTS) – and the tightening of benefit eligibility rules. There is also growing evidence, however, of a genuine improvement in the labour market.

With output rising rapidly and overtime working at its highest level since 1980, manufacturing industry has slowed the rate of job losses, while employment in service industries appears to be growing strongly. The number of vacancies has also risen by around a quarter during the past year, although it fell back slightly in November.

Ministers are relucant, however, to predict a comparable pace of decline in 1988. Even if the impact of the stock markets' crash on the economy is relatively small, the Treasury is forecasting a significant reduction in the pace of economic growth from the present rate of 4 per cent or above to 2.5 per cent next year.

The recent upward pressure on wages, particularly in the south-east of England, where unemployment is down to 6.6 per cent, is also causing concern about the prospect of inflation. The underlying rate of growth in earnings in manufacturing has risen from 7¾ per cent at the start of this year to 8½ per cent.

The impact on costs is at present being offset by productivity growth running at around 7 per cent a year, but there is little expectation that such gains can be sustained indefinitely.

Rank seeks launch of pay TV

BY RAYMOND SNODDY IN LONDON

THE RANK Organisation, one of Britain's leading leisure groups, is seeking permission from the Government to launch a subscription television service over normal broadcasting transmitters similar to the successful Canal Plus in France.

Rank, which is prepared to invest between £50m – £100m in the project, believes it could offer a new channel of premium programming – including recently released feature films, drama and sports events – by 1990 if permission is given in time.

During the last three years in France, Canal Plus has attracted more than 2m subscribers paying about £15 a month with its subscription television service based largely on films.

"This is just a natural way to send films to the home," said Mr Michael Gifford, chief executive of Rank.

Rank has been discussing the project with a Department of Trade and Industry committee

The engineers have already decided that it is possible to have a fifth UHF channel capable of reaching between 60-70 per cent of the population and a sixth channel capable of reaching 50 per cent.

Rank said yesterday there was also enough unallocated VHF spectrum for another programme service which could give coverage for more than 70 per cent of the UK population.

Rank is proposing to erect its own transmitter network which would cost about £15m. A scrambled signal would be broadcast and turned into a clear television signal by a de-coder plugged into the television set.

If the service was launched on VHF, the de-coder would also convert the VHF signal into UHF so existing television sets could be used.

The company believes that the aerial and de-coder could sell for less than £100 – much less than satellite receiving equipment.

Subscribers would pay between £8 and £12 a month to receive up to 60 films and Rank believes that there is a potential demand of up to 3m subscribers.

The company is also looking at the possibility of co-operating with the BBC which has been investigating the possibility of a film subscription service.

Rank wants the issue of new broadcast channels to be included in the first of two broadcasting bills planned by the Government to allow a 1990 start.

Although the DTI is said to be enthusiastic about a subscription service, it is not clear how this would affect British Satellite Broadcasting – the £625m Direct Broadcast Satellite venture.

Hanson salary quadruples to £1.263m

By David Waller

LORD HANSON, chairman and founder of the Hanson group of industrial companies, is one of the UK's highest paid directors.

The company's 1986-87 annual report disclosed yesterday that his salary for 1987 had nearly quadrupled to £1.263m. Last year he was paid just £327,000.

The increase was part of a review of directors' salaries which has doubled boardroom pay from £3m to £6m.

A statement said the review had shown previous salaries inadequate by international standards. Mr Martin Taylor – a Hanson director who expressed regret that his own salary had not in fact doubled – explained that more than half the company's 120,000 employees now worked in the US, where pay was a lot higher than in the UK. "We must pay our top people global rates," he said.

The other consideration was that the pay increase should reflect the rate of growth in Hanson's earnings per share. An element of the pay increase was tied to the 31 per cent jump in earnings in the year to September 30, when pre-tax profits amounted to £741m.

"In the case of our chairman, it was important to continue to motivate him as he approached normal retiring age in January this year," said Mr Taylor. Lord Hanson, 66 next month, is thought to have indicated in negotiations earlier this year that he would like to stay on for another five years.

He was awarded a salary of £968,000 and a performance-related bonus of £295,000. His dividend income on his 8.6m shares – about £378,000 a year – and a series of options agreements struck over the last four years are entirely separate.

He has now joined a select group of UK businessmen who earn more than £1m a year – but his basic remuneration is still less than that of Mr Christopher Heath, managing director of Baring Securities, whose pay and benefits package topped £2.5m in 1986-87.

INCOME TRENDS REVERSE POST-WAR PATTERN

Rich are getting richer under Thatcher

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

THE POST-WAR trend towards greater equality of incomes has been reversed under the Government of Mrs Margaret Thatcher, according to an official study published yesterday.

In its three-yearly distribution of incomes survey, the Central Statistical Office said that the rich have gained a progressively larger share of national income since 1979. The poorest have seen their share fall fractionally.

The survey shows that the proportion of pre-tax income earned by the wealthiest 1 per cent, which had previously fallen consistently since 1948, rose from 5.3 per cent in the 1978/79 financial year to 6.4 per cent in 1984/85.

Tax payments reduced that share but the trend was the same, with the proportion of overall income claimed by the richest rising from 3.9 per cent to 4.9 per cent after tax.

The shift towards greater inequality was also apparent in the gains made by those in the top 10 per cent on the income scale, whose share of pre-tax incomes rose from 26.1 per cent to 29.5 per cent over the same period.

INCOME DISTRIBUTION (percentages)
Figures in Brackets represent share after tax.

Quantile Group	1978/79	1981/82	1984/85
Top 1%	5.3 (3.9)	6.0 (4.6)	6.4 (4.9)
2-5%	10.7 (9.8)	11.6 (10.7)	12.1 (11.1)
6-10%	10.1 (9.7)	10.7 (10.3)	10.9 (10.5)
Top 10%	26.1 (23.4)	28.3 (25.6)	29.5 (26.5)
11-20%	16.5 (16.3)	16.7 (16.4)	16.8 (16.6)
21-30%	13.5 (13.5)	13.2 (13.2)	13.0 (13.0)
31-40%	11.2 (11.3)	10.7 (10.8)	10.3 (10.4)
41-50%	9.2 (9.3)	8.6 (8.8)	8.2 (8.6)
51-60%	7.3 (7.7)	7.0 (7.3)	6.6 (7.1)
61-70%	5.8 (6.4)	5.8 (6.3)	5.4 (6.0)
71-80%	4.5 (5.1)	4.4 (5.2)	4.4 (4.9)
81-90%	3.5 (4.1)	3.5 (4.0)	3.5 (4.2)
91-100%	2.4 (2.9)	2.0 (2.4)	2.3 (2.7)

Source: Central Statistical Office.

By contrast, the share of the bottom 10 per cent fell from 2.4 per cent in 1978/79 to 2.3 per cent in 1984/85, although it did rise from the low-point of 2 per cent seen in 1981/82. The share of other groups in the lower half of income scale was roughly constant.

The survey shows that all income groups saw their earnings rise quite strongly in the three years 1981/82 to 1984/85, but both proportionately and in absolute terms, the highest-paid received most. That trend was reinforced by changes in the tax system, with reductions in income tax favouring the richest.

The top 1 per cent, for example, received a pre-tax increase of 33 per cent in their incomes and a post-tax rise of 35 per cent. The comparable figures for those in the bottom half of the income scale were 22 and 24 per cent.

In 1978/79 the top 1 per cent on average paid 40 per cent of their incomes in tax. By 1984/85 that figure had fallen to 36 per cent.

There is evidence, however, of a deceleration between 1981/22 and 1984/85 in the pace of gains made by the highest-income groups. The trend towards greater inequality is much sharper in the first three years of the present Government than in the latter three covered by the latest survey.

Overall, the income tax system also remains progressive. Income tax payments have the effect of reducing the share of the top 10 per cent from 29.5 per cent of pre-tax income to 26.5 per cent of post-tax income. Conversely, the bottom 10 per cent increase their share from 2.3 per cent to 2.7 per cent.

The average pre-tax income of the top 1 per cent in 1984/85 was £48,210 (£30,940 after tax). For the bottom 20 per cent it was £2,200 (unchanged after tax).

BAe is likely to reduce its participation at Farnborough

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

BRITISH Aerospace, the aircraft, missiles and space manufacturing group, is likely to reduce substantially its participation in next year's Farnborough international air show.

It is also examining the possibility of running its own private air show at its Dunsfold airfield in Surrey as an alternative to Farnborough.

Any final decision to cut down, or even withdraw, from the biennial Farnborough show, run by the Society of British Aerospace Companies, would almost certainly result in other major companies, especially from overseas, following suit.

The Farnborough, Hampshire show, which attracts about 300,000 visitors, vies with the Paris air show as the world's biggest.

British Aerospace is in the middle of a programme aimed at reducing costs by one-third across the entire group by the early 1990s.

The review of air show activities forms part of the cost cutting programme. The rising expense of taking part in major air shows – in addition to Farnborough and Paris they include Hannover, Singapore, Japan, China, Chile and Indonesia, and the number is tending to increase – has become an acute problem not only for BAe but also for other companies. BAe's direct costs for the 1986 Farnborough show are understood to have amounted to about £2m.

This includes several hundred thousand pounds paid to the Ministry of Defence to make demonstration flights with military aircraft such as the Tornado, the cost of buying extensive chalet space, entertainment costs and the cost of executives' time.

BAe is understood to have told the SBAC Council this week that its participation in next September's Farnborough flying display will be limited to its Advanced Turbo-prop airliner and that it is also reviewing the extent of its other involvement in the static exhibition and in chalet space.

Although no final decisions have been taken, any reduction in its involvement will be regarded as giving the lead to other big aerospace companies which have felt for some time that the proliferation of international air shows has become counter-productive, although they tend not to say so publicly.

BAe believes it can benefit commercially to a greater extent at lower cost by bringing important guests privately to the UK and then housing, entertaining and briefing them in quieter surroundings.

Two years ago, British Aerospace experimented with an extensive exhibition and flying display of its own wares at its Dunsfold airfield before several thousand specially invited guests.

Although expensive, it was much less costly than participating in either the Farnborugh or Paris shows and had the advantage that BAe was on its own premises, giving it greater control over the event and providing opportunities for a calmer appraisal of its wares by foreign visitors. BAe may well consider undertaking such a display again.

Milkmen plan protest over franchise deal

BY OUR LABOUR STAFF

ABOUT 350 milkmen employed by Northern Dairies in Merseyside and parts of Lancashire are to refuse to collect cash from customers in protest at a company plan to franchise them their rounds.

The company is said to have rejected an alternative scheme put forward by the milkmen's union Usdaw for them to establish a workers' co-operative to share the risks of self-employment.

The Northern Dairies plan is one of a number by dairy companies to transfer their milkmen to self-employed contracts, or pay them on a commission basis, depending on the amount of goods they sell.

The milkmen's union claimed yesterday that the company had refused to negotiate any part of the package, which the union described as "vastly inferior" to those of other companies.

It said that the milkmen were being asked to pay a £3,000 bond from their redundancy payments for acceptance on the new franchised round and were also being charged £89.50 for use of a depot.

DTI predicts investment at record levels in 1988

BY SIMON HOLBERTON

INVESTMENT IN British manufacturing is expected to surge next year, exceeding, for the first time, the peak established in 1979, the Department of Trade and Industry said yesterday.

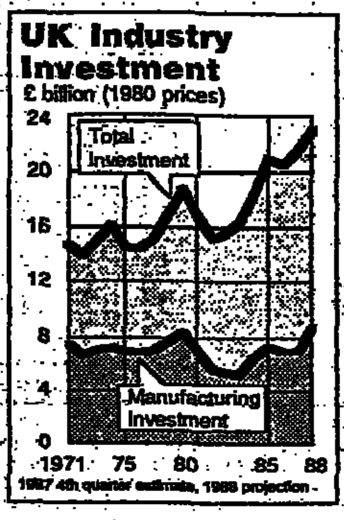
The DTI's survey of industry's investment intentions for 1988 shows that manufacturers expect to invest 11 per cent more in real terms next year than they did this year.

Total manufacturing investment is forecast at £8.4bn in terms of 1980 prices next year. This compares with £8.2bn in 1979 and a low point of £5.55bn in 1983.

The department's survey, which is generally regarded as a good indicator of investment intentions, underscores the strength and buoyancy of the British economy, which is evident from recent data on industrial output and employment.

However, the survey was conducted before the mid-October share price collapse and some uncertainty therefore surrounds its findings. Although many independent economists feel there could be little or no effect on business confidence from the collapse, the Bank of England and the Treasury believe much more data is needed before firm judgments can be made.

Against that, it does support the findings of a Confederation of British Industry survey of investment intentions published late last month. The CBI found that 70 per cent of its survey group planned either to increase capital spending or keep it at the same levels as this year.



1987 4th quarter estimate, 1988 projection

The DTI survey also shows that on a fourth-quarter estimate, manufacturing investment will be 6 per cent higher this year than in 1986. This compares with an estimate of 4 per cent higher in the DTI survey published in June.

In 1988, direct investment in manufacturing is projected to rise by 12 per cent. The largest increases are expected in the vehicles, process, mechanical and electrical engineering industries.

Direct investment in plant and machinery is expected to increase substantially, as manufacturers respond to existing capacity constraints, but investment in new building works is expected to be lower than during this year.

Investment in construction, distribution and selected service industries is expected to advance by 6 per cent next year to £14.8bn. Growth is expected to be largest in retail and catering, construction and road transport, and finance industries, the department said.

The department's survey of investment intentions forecasts total manufacturing investment this year at £7.5bn compared with £7.1bn in 1986.

Total investment is forecast to rise 8 per cent to £23.3bn next year from £21.5bn this year, and £20.2bn in 1986. Separately, the DTI released revised estimates of capital expenditure figures for the third quarter which showed the manufacturing, construction, distributive trades and financial industries invested 5 per cent more in real terms over the last 12 months than the preceding 12 months.

Maxwell eyes New York Post

BY RAYMOND SNODDY

MR ROBERT MAXWELL, publisher of Mirror Group Newspapers, confirmed officially yesterday for the first time that he is having talks with Mr Rupert Murdoch about the possible purchase of the loss-making New York Post.

The rival newspaper proprietors created an avalanche of rumours last week when they met several times within a matter of days in the UK.

Mr Maxwell, who has built up extensive commercial printing interests in the US, helped to solve the mystery yesterday when he told American correspondents in London that he was talking to Mr Murdoch about the ownership of the New York Post.

"We are looking at one or two properties and one of them is the New York Post," Mr Maxwell said.

The talks come as Mr Murdoch is facing a March deadline for the sale of the Post. Mr Murdoch has to get rid of the newspaper to retain ownership of his New York television station, because of Federal Communications Commission rules banning ownership of a newspaper and a television station in the same market.

Mr Maxwell said yesterday he was also researching the possibility of launching in the US a colour newspaper styled on the Daily Mail to compete with USA Today.

The Daily Mirror publisher emphasised that no commitments had been entered into on either side on the future of the New York Post.

Mr Maxwell also announced yesterday that Mr Don Freuling, head of publishing at business publisher McGraw Hill, had joined his US operation as head of publishing.

● Today, the national daily newspaper owned by Mr Murdoch, is to close its Birmingham printing operation.

In future the colour tabloid will depend on its other two printing plants at Poyle, near Heathrow Airport, and Manchester.

Mr David Montgomery, editor and managing director, said yesterday it no longer made economic sense to print at three sites.

New Sellafield plant to reduce radioactivity

By Maurice Samuelson

BRITISH NUCLEAR FUELS has chosen Davy McKee, the British arm of the Davy Corporation, to design and build a plant to reduce radioactivity discharges into the Irish Sea from BNFL's nuclear reprocessing site at Sellafield in Cumbria.

The project, worth more than £130m, will be the centrepiece of BNFL's £500m ongoing investment in effluent treatment plants at Sellafield, where total long-term investment is expected to reach £3.7bn.

Sellafield's discharges into the sea have been frequently criticised by environmentalist groups such as Greenpeace and by the Government of the Irish Republic.

BNFL says the discharges have been reduced substantially in recent years and levels for longer-lived radioactivity are only 2.4 per cent of previous peak discharges, and shorter-lived material 1.3 per cent of the previous levels.

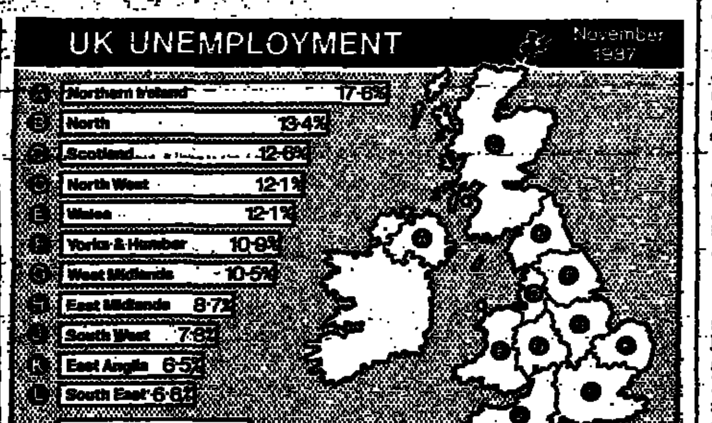
When the plant comes into operation it would "contribute significantly to the continuing programme of reductions in discharges."

The structure, to be called Earp (Enhanced actinide removal plant), will create about 550 jobs - some 250 for Davy McKee Nuclear at Stockton and Sellafield, and 300 for the site subcontractors.

Earp is distinct from the £1.65bn Thermal Oxide Reprocessing Plant (Thorp) being built to reprocess used fuel rods from nuclear reactors, converting them into uranium for re-use and also producing plutonium.

Housed in a reinforced concrete structure about 73 metres long, 44 metres wide and 34 metres high, Earp will treat the waste stream from the reprocessing plant.

Davy was one of three companies invited to tender for the contract.



THE GOVERNMENT'S seasonally adjusted unemployment total fell by 63,500 last month to 2.649m, marking the 17th consecutive monthly fall, the Employment Department said yesterday, writes Philip Stephens. **The unadjusted total, which includes school-leavers, fell by 66,000 to 2.686m.**

The jobless total has fallen in all regions over the past year but there are still wide disparities between employment in different parts of the country. The unemployment rate of 6.6 per cent in the south-east compares with a UK figure of 9.5 per cent and a rate of 17.6 per cent in Northern Ireland.

Among the other unemployment blackspots are the north of England, with a rate of 13.4 per cent, Scotland (12.6 per cent) and Wales (11.8 per cent).

The lowest rate, according to the official figures, is in is East Anglia where 6.5 per cent of the population is receiving benefit.

Change in Lloyd's US tax status shelved

BY NICK BUNKER

LLOYD'S OF LONDON is hopeful that it has escaped the threat of an upheaval in its US income tax affairs as a result of Congressional efforts to reduce the US budget deficit.

The London insurance market learned yesterday that a joint Senate and House of Representatives committee had backtracked on a House proposal to tax Lloyd's syndicates as though they were insurance companies.

The joint committee has instead asked US Treasury officials to conduct a study of the federal income tax status of Lloyd's and its 31,000-plus members.

Mr Jim Jaffe, an official with the House Ways and Means Committee on Capitol Hill, said the Senate and the House had also agreed to ask the Treasury to renegotiate the 1984 "closing agreement" that governs Lloyd's US tax affairs.

Lloyd's had feared that the original proposal would force it to abandon its three-year accounting period. The proposed tax change was one of many revenue-raising options contained in a budget reconciliation bill passed by the House this autumn.

Prince supports Hotol project

BY PETER MARSH

PRINCE CHARLES yesterday entered the controversy over the space industry with a call for increased UK backing for Hotol, a revolutionary design for a satellite launcher being studied by British Aerospace and Rolls-Royce.

Without referring to Hotol by name, the Prince said in a speech to the Stock Exchange that Britain was in danger of losing a "brilliantly simple" aerospace concept to foreign interests.

"Why is it," asked the prince, "that others see the commercial value in our ideas, but so often we don't?"

After the speech a Buckingham Palace official confirmed that Prince Charles had been referring to Hotol, which is short for horizontal take-off and landing. The vehicle, which could cost £4bn to develop, promises to reduce the cost of launching payloads by using a radically new engine to zoom into space from a runway, like an aircraft rather than an orthodox space rocket.

"I don't know why the Prince didn't mention Hotol by name," said the Buckingham Palace official. "The speech was not meant to be political."

Nonetheless the Hotol reference was taken to underline the Prince's desire for stronger government backing for the vehicle.

In recent weeks Prince Charles has written to Mr Roy Gibson, the former head of the British National Space Centre, asking him for his views on space issues. Mr Gibson resigned in the summer after the Government failed to accept his call for increased UK investment in space technology.

Government funding of Hotol has officially stopped, pending a review of future prospects for the vehicle, which its proponents say could be flying by the end of the century. The Trade and Industry Department gave £1.5m for initial design studies.

The British National Space Centre said yesterday the Government was waiting for the two companies to make a case for renewed state support in the next few weeks.

One of the points on which Whitehall wants assurance from the two companies is the degree to which Hotol could fit in to an international venture.

Authorities seek extra health cash boost

By Alan Pike, Social Affairs Correspondent

HEALTH authorities, which this week received a £101.8m cash boost from the Government to relieve immediate pressures, are to seek another £200m for next year.

A delegation from the National Association of Health Authorities is to meet Mr Tony Newton, Health Minister, in the new year to review the difficulties facing the National Health Service.

The association will tell Mr Newton that the extra £707m allocated by the Government to health authorities for the 1988-89 financial year needs to be increased to more than £900m to avoid a repetition of the current crisis.

Mr Philip Hunt, director of NAHA, yesterday welcomed the extra £101.8m for the current year. But he said that the "turmoil of the last four months," during which health authorities had been forced to seek emergency savings, could have been avoided if the additional cash had come sooner.

Some health authority leaders consider £101.8m to be insufficient, but believe the Government's decision to make the extra money available should make immediate problems much less acute. Health service managers have already begun to look at problems that are likely to arise next year.

Although the Government regards the extra £707m it has offered for next year as generous, health authorities have said it is insufficient. The sum is based on the assumption that inflation will be 4.5 per cent, but health authorities estimate that the combined effects of pay and price rises next year will put the inflation rate for them at 5.9 per cent.

The Government's failure to fund the full cost of national pay awards is a main source of friction between health authorities and the Government. Two surveys of the effects on health authorities of the underfunding of pay awards and price inflation in the current year both point to a shortfall of around 1.5 per cent, or £170m.

Mr Hunt said that the financial position next year, based on the Government's proposed extra £707m, was going to be very tight.

The Government plans to set up a unit to advise health authorities on ways of generating income. Mr Hunt said that health authorities should welcome some commercial opportunities, such as shops in hospitals, which would benefit staff and patients. But authorities expected to raise at most £300,000 a year from these methods, in the context of average budgets of £50m.

BAe to set up enterprises division

By Michael Donne, Aerospace Correspondent

BRITISH AEROSPACE, the aircraft, missiles and space manufacturer, is setting up a division to manage and develop a number of the group's investments in subsidiary and associated companies.

One is the Flying College, recently established at Prestwick in Scotland. Others include activities such as electro-optics, image processing, advanced manufacturing techniques, wind generation and equipment for detecting drug smuggling.

The objective of the division, BAe Enterprises, is to exploit worldwide the group's development of technology and products.

A new, wholly-owned subsidiary of BAe, British Aerospace Simulation, is to be included and will bring together BAe's scattered interests in aircraft simulation. One possibility is that the company will bid for Rediffusion Simulation, the airliner simulator manufacturer, which is expected to be sold by its parent, BET.

Sir Raymond Lygo, chief executive of BAe, said yesterday that no decision on bidding for Rediffusion Simulation had been taken.

A potential development would be the establishment of an airliner simulator division in Washington to train pilots of US operators.

Sir Raymond said the group's plan to cut costs by as much as 33 per cent by the early 1990s was on target. He said that between 1981 and the end of last year BAe had reduced its staff from 79,179 to 74,914, and at the same time increased the value of sales per employee from £20,988 a year to £41,875.

Government plans to stick to water privatisation timetable

BY RICHARD EVANS

THE GOVERNMENT'S policy document on the structure of the National Rivers Authority, published yesterday, confirms the determination of ministers to stick to their timetable in privatising the first batch of water authorities by the end of 1989.

Mr Nicholas Ridley, Environment Secretary, confirmed in a Commons written answer that the NRA would take over the regulatory functions of the authorities, which had to remain in the public sector, together with a range of river functions such as water resource planning and control, land drainage and flood prevention, fisheries and navigation.

The statement was warmly welcomed by one authority chairman, Mr John Bellak of Severn–Trent, but the remaining nine chairmen and the Water Authorities Association expressed varying degrees of reservation.

It is not yet clear what size the NRA will be; detailed negotiations will continue with the authorities. About 6,000 employees in the 10 authorities now carry out the functions to be transferred to the NRA.

The Government is sensitive to claims that the NRA will turn into an unwieldy and expensive quango. Every effort will be made to encourage the privatised authorities to contract for many of the NRA functions, such as flood protection.

Mr Ridley confirmed that the NRA, which will have a board of up to 12 members appointed by ministers, would have a substantial regional presence and its administrative areas would coincide with the present river basin boundaries of the authorities.

The NRA will charge the privatised authorities for its services but it is estimated it will have an annual deficit of £33.4m which will be met by the Treasury.

Once the bill preparing the way for privatisation reaches the statute book early next year, each authority will be asked to submit a detailed plan on how it intends to transfer functions.

The Water Authorities Association said it was disappointed that ministers had not adopted the options it had put forward for the NRA, which would have preserved the concept of integrated river basin management. The Government's solution was bound to result in extra costs and the loss of many positive benefits.

In considering any contracting out arrangements, the WAA said these would have to avoid further uncertainties for staff and confusion of responsibilities.

Curb on enterprise zones

BY ANDREW TAYLOR

THE GOVERNMENT does not intend to announce any further enterprise zones in England, although it will consider proposals to establish or extend zones in other parts of the UK, Mr Nicholas Ridley, Environment Secretary, told the Commons yesterday.

He said the Government regarded other measures, such as development and regeneration grants and the creation of urban development corporations, as more cost-effective ways of stimulating jobs and investment in deprived areas. Enterprise zones had been successful in creating jobs, but at a cost.

Mr Ridley said studies undertaken by private consultants, due to be published shortly, would show employment in the 25 UK enterprise zones had more than doubled since the first 11 zones were announced in 1981 and 1982.

"These substantial achievements must, of course, be set against the cost of the experiment, which by the end of 1986 amounted to just under £300m for the British zones," said Mr Ridley.

One criticism of enterprise zones, which offer a range of planning and fiscal incentives, including exemption from rates, is that they have attracted investment into the zones to the detriment of surrounding areas and have thus only moved problems around.

Mr Ridley defended the creation of the zones, saying they were among the first steps taken by the Government to encourage enterprise and lift the burden of excessive regulation from industry.

Shipowners appeal for help

BY KEVIN BROWN, TRANSPORT CORRESPONDENT

SHIPOWNERS yesterday called for urgent help from the Government to reverse a 12-year decline in the number and tonnage of UK ships.

The General Council of British Shipowners, which represents 110 shipping companies, released a 30-page analysis of options for government action, ranging from income tax relief to capital investment allowances.

The analysis has been sent to Mr Paul Channon, the Transport Secretary, and other ministers, in an attempt to stimulate a Cabinet debate on shipping before Mr Nigel Lawson, the Chancellor, delivers his next Budget in March.

GCBS officials admitted that they were not optimistic of a change in the Government's unsympathetic reaction to previous appeals for help.

The analysis is intended to draw attention to a decline in the number of UK-owned ships from a peak of 1,614 ships of around 50m tons deadweight in 1975, to 635 ships of 16.9m tons this year.

Within this figure, around 235 UK-owned ships of 11m tons are registered outside the mainland UK, mostly in the Isle of Man and British Dependent Territories.

The GCBS forecasts that the total could fall to as few as 100 ships by the mid-1990s unless shipowners are encouraged to replace ships ordered under a favourable capital allowances regime in the 1970s.

It says this would deprive the North Atlantic Treaty Organisation of an important strategic reserve, and remove a positive contribution to the balance of payments of between £1.5bn and £2bn.

The Government says that the balance of payments would be unaffected by a collapse of the shipping industry because resources would be redeployed elsewhere. It is awaiting a report from Nato on the defence implications of the decline of the fleet.

The options the Government is being asked to consider include:

● A 50 per cent capital allowance on new or secondhand ships.

● Roll-over relief for balancing charges, to encourage reinvestment of profits on sales of existing ships.

● Strategic investment grants for ships available for requisition in the event of an emergency;

● Help with training and travel costs for crews joining and leaving ships.

● Relief from income tax and social security charges.

Unit trusts suffer net monthly outflow

BY ERIC SHORT

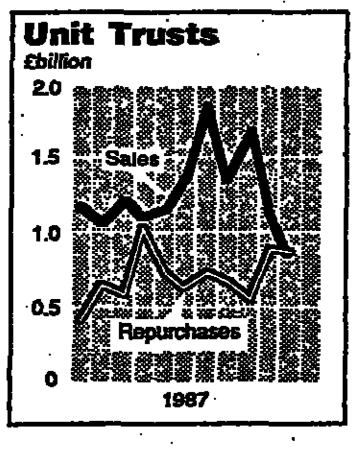
THE STOCK MARKET crash in October and the lack of a sustained recovery last month resulted in the unit trust industry experiencing a net outflow of money last month, the first time this has happened for more than seven years.

Figures issued yesterday by the Unit Trust Association showed a net outflow of £12.7m.

However, the industry was expecting a far greater outflow as investors recovered from the shock of the initial crash in October. Many unit trust managers are relieved that the outflow has not been much greater.

The first surprise was that the amount of units redeemed in November at £826.7m was almost £70m below redemptions for October.

Many investors are holding on to their units, either waiting for a recovery before selling, or accepting that unit trusts are a long-term investment.



The second surprise was that £814m of units were bought by investors last month.

Although this is the first time this year the value of units bought has fallen below £1bn, the figure is only £14 lower than in November last year.

Investors are begining to appreciate that a bear market offers buying opportunities, although the most popular funds are the traditionally defensive gold and commodity funds.

The number of unit holders continues to rise, increasing by 150,000 during November to 5.08m.

Unit trust managers are finding that when unit holders do sell, they first cash in their overseas trusts before their UK-based holdings. There have been heavy redemptions in US, Japanese and Far Eastern Funds.

The impact of the crash can be seen from the value of funds under management. These fell a further £2.8bn in November to £34.6bn compared with the high point of £50.3bn at the end of September.

Takeover bid price rules are relaxed

By Clay Harris

THE TAKEOVER PANEL indicated yesterday that a company planning to mount a takeover bid would not necessarily have to match the price it paid for shares in a target company before the October stock market crash.

The panel, which polices the City's self-regulatory structure for mergers and acquisitions, signalled the new flexibility as part of its first post-crash revision of the Takeover Code.

The change is primarily intended to allow agreed takeovers, which could otherwise be blocked by a technicality, to proceed. It does not necessarily shift the advantage in a hostile takeover attempt towards the bidder.

The panel said a bidder would normally have to match the best price it paid for any share in the three months immediately before the launch of the bid.

The rule replaces wording that required a general offer to match any purchase made when a bid had been "reasonably in contemplation." The rule change removes the need for the panel to make a subjective judgement about a company's intentions.

In both cases, the purpose of the rule is to guarantee that all shareholders are treated equally.

In its guidance notes to the new rules, however, the panel makes clear that, "in exceptional circumstances," it will entertain requests that an offer be permitted that does not match a price paid less than three months previously.

The factors to be considered by the panel in such a case include whether a purchase was made at the prevailing market price, subsequent changes in the market price, the size and timing of the purchase and the attitude of the target company.

This will give the panel the flexibility to release a bidder caught by a change in external circumstances from having to make an unrealistically high offer or, more likely, not making an offer at all.

In many cases, the panel argues, shareholders would prefer to be allowed to consider an offer that looked low by pre-crash standards rather than none at all.

The main purpose of the rule – the equal treatment of shareholders – would be upheld by the panel's power to require the matching of prices paid more than three months previously if shares had been bought from directors or others closely associated with the target company.

The rule change and the implied underlying flexibility are not expected to have a significant effect on takeover activity.

The panel noted that three months was actually longer than the period that had generally been applied under the existing rule.

The change, moreover, will not release a company from previous declarations that it had no intention to bid. Such a company is bound for the period it specifies, or usually for three months if it makes only a general statement.

Tarmac unveils Swindon plans

By William Cochrane

TARMAC PROPERTIES yesterday unveiled plans for an "urban village" in Swindon, Wiltshire, including housing, industry, retailing, leisure and business accommodation.

The company, part of Britain's largest building materials and construction group, said that it had applied to Thamesdown Borough Council for outline planning permission for a £250m redevelopment of the historic former British Rail Engineering works in Swindon. The site comprises about 142 acres.

William Cochrane on the progress of the Broadgate plan

Royal mercy for City square

THE CITY'S Black Monday crash seemed forgotten yesterday when the Prince of Wales inaugurated Broadgate Square, centrepiece of Rosehaugh Stanhope's £2bn office development in the City of London.

And there were no royal references to carbuncles. Prince Charles opened the square, enclosed by the first four phases of the 4m sq ft office development, without comment on the surrounding architecture.

The square is a three-storey structure which houses an area which will be an open-air ice rink in winter and an amphitheatre in summer. There is also 34,000 sq ft of retail space and restaurants.

There was reassuring talk about City demand. The first three phases of the development - designed, with phase four, by British architect Arup Associates - were known to be let to Security Pacific, Shearson Lehman and Union Bank of Switzerland respectively.

It is believed that phase four is under negotation by several tenants, including a Japanese occupier, that phase five and phase six have attracted Bankers Trust and Natwest and that phase nine and phase ten could go to stockbroker Laing & Cruickshank and Credit Lyonnais. It is hoped that all these will be signed up by next month or February.

Broadgate Square: centre of a £2bn City office development

The development is no overnight success. British Rail went for a 1.1m. sq ft project in 1976, when office development permits were still in force, received planning permission in 1979 and eventually brought in Taylor Woodrow and Wimpey as joint developers.

That partnership did not make the development work and BR held a competition in 1983. In February 1984 it chose Rosehaugh Stanhope from a field of eight.

Rosehaugh Stanhope was a joint venture, combining the financial skills of Rosehaugh's Mr Godfrey Bradman and the development expertise of Stanhope's Mr Stuart Lipton, who had particular experience of building over railway tracks at Victoria in the early 1980s, when he was with Greycoat.

Construction started in 1985. In that year, when Broadgate was a four-phase, 1¼m sq ft development, Mrs Margaret Thatcher observed that it was the largest development in the City since the Great Fire of 1666.

Since 1985, with the addition to the design team of Skidmore Owings & Merrill, the multi-disciplinary US architectural practice, it has grown to 14 phases comprising 5m sq ft gross and more than 4m sq ft net of office and ancillary space.

Reservations were expressed yesterday about Broadgate's style. Mr Lipton's commitment to large floors, speed of construction, research into occupier requirements and innovation in general has led to uncompromisingly modern building design.

However, Mr Lipton was satisfied yesterday that he would eventually have a massive feat of civil engineering to celebrate.

Liverpool to get £26m waterfront development

BY IAN HAMILTON FAZEY, NORTHERN CORRESPONDENT

A £26m DEVELOPMENT for Liverpool's waterfront will aim to turn it into one of Europe's leading leisure, sports and tourist attractions.

Five private-sector developers, each in charge of a separate project, are involved in the scheme, announced yesterday, and the Government is giving a £2.3m urban development grant.

The centrepiece will be an £8.75m international arena with a 60-metre by 30-metre ice rink and seating for 7,000 spectators. This will allow Liverpool to host world and European ice sports championships, the first time Britain has been able to offer such facilities.

The five projects are complementary to each other and to the adjacent Albert Dock redevelopment, where the Tate Gallery is to open its northern branch next May. Merseyside Development Corporation, which owns the land, expects building to start immediately.

About 700 permanent jobs will be created, with 900 others generated by construction over the next two years.

The scheme will benefit Merseyside's developing tourist industry, which expects 6m visitors a year by 1993 to sustain 2,000 jobs on the waterfront. Albert Dock alone has attracted 2.8m people this year. The MDC recently completed the restoration of 68 acres of waterways in the formerly redundant south dockland. The new developments will be on the site of the old Kings Dock.

Mr David Trippier, the minister responsible for regional affairs, welcomed the centrepiece project as of national and international significance. It is being developed by Arena Associates, which is linked informally to Wembley International through common investors and directors. The major financial backing, however, will be foreign and is to be announced shortly.

The other projects are:

- An £8m, 70,000 sq ft concourse of 56 retail units and three restaurants being built by Speciality Shops.
- A 12-screen cinema, costing £4m, with 3,000 seats. The developer, AMC Entertainment, built the multi-screen complex at Milton Keynes.
- A speciality cinema by Imax Systems, a US company that has tried out its large screen concept in Britain at Bradford's national museum of film, photography and television.
- A budget-priced hotel to be built by the fast-growing French chain, Societe des Hotels Grils Campanile.

A £300m retail, leisure and office development on a nearby waterfront site was proposed earlier this year by Mersey Docks and Harbour Company. But the dock company's scheme is still at the planning stage.

Men and Matters, Page 14

Shorts back in trading profit

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

SHORT BROTHERS, the Belfast aerospace manufacturer, made substantial progress in 1986-87, recovering from the setbacks of the previous year.

Sir Philip Foreman, chairman and chief executive, said yesterday the company earned a trading profit of £9.9m in the year to the end of March, compared with a trading loss of £13.6m in the previous year. Turnover increased by 12.5 per cent to £225m.

However, the company's annual report shows that design, research and development expenditure of £10.1m more than absorbed the trading profit, leading to a small loss before interest of £165,000, compared with £21.6m in 1986.

Sir Philip said: "Because our working capital is provided entirely from commercial sources, we had to pay £19.8m in interest charges on those bank borrowings. This charge resulted in an overall loss for the year of £19.9m, compared with a loss of £37.2m in the year before."

Sir Philip said that during the year "there was a recovery in all three major sectors of the business (aircraft manufacture, missiles and aerostructures) as new product lines came on stream and problem areas were tackled."

"We invested over £7m in new facilities and equipment to provide for the future," he added.

"However, we operate in an extremely competitive market, and in order to maintain our position in that market we will have to improve our performance, which means making major changes in the way we manage the business and in our working practices.

"We are entering a period in which many changes will be necessary, but I am sure that the survival of the company and its future are uppermost in everyone's mind and that we will all give our whole-hearted support."

Price Waterhouse fee income up 30%

BY RICHARD WATERS, ACCOUNTANCY CORRESPONDENT

FEE INCOME at Price Waterhouse rose by 30 per cent to £153m in the year to September 30, underlining the strong growth of accountancy firms in the past year.

The figures come a week after Arthur Andersen reported 30 per cent growth and Peat Marwick McLintock 26 per cent. They are expected to push Price Waterhouse past Coopers & Lybrand in volume terms to become the country's second largest firm.

Management consultancy provided the strongest growth at Price Waterhouse, with fee income up nearly 50 per cent to £33.9m.

The number of hours worked by Price Waterhouse staff, for which fees were charged, rose 12 per cent. The difference between this and the growth in fees gives a clue to the firm's profitability. Mr Jeffery Bowman, senior partner, said the cost of staff and investment in training and technology made this a less reliable guide to profits than in the past.

Price Waterhouse expects reduced growth next year, but reports strong demand for computer-related services.

The tax department fee income grew 32 per cent to £30.1m, audit 26 per cent to £68m and investigations 21 per cent to £12.4m.

BBC fails to have injunction lifted

By Raymond Hughes, Law Courts Correspondent

THE BBC yesterday failed to rid itself of a temporary injunction that has stopped it broadcasting a Radio Four series on the British security services.

A High Court judge decided that Sir Patrick Mayhew, QC, the Attorney-General, had a good arguable claim for a permanent injunction and that more harm might be caused to him and the country if the temporary order were discharged than might be suffered by the BBC if it were continued until the full trial.

Mr Justice Owen gave his judgment in public after a private hearing last week. He refused to narrow further the terms of the injunction, which had been modified by agreement last week.

He said the injunction had been sought by the Attorney-General to protect, in the public interest, the secrecy of the British security services.

To end the injunction now would be to deprive Sir Patrick of an opportunity to achieve that and might "do harm to the security of the realm."

To continue it until trial would only mean postponing the BBC's right to publish if it won the case.

The judge said that the series – My Country Right or Wrong, which included interviews with past and present members of the security services – was intended by the BBC to be a serious and responsible contribution to public debate on security services in a democratic society.

The BBC had refused to show the Attorney-General the script of the first programme. Pre-trial procedural rules would now require it to be disclosed. If Sir Patrick did not object to any part of it on the ground of a breach of the duty of confidentiality owed by security service members there would be no impediment to the broadcast.

If there was an objection the case should be tried as soon as possible, the judge said.

Clay Harris on the man taking a senior role at N.M. Rothschild

US exile at home in City banking

EVERY EXPATRIATE has an explanation. Professionally, Mr Fred Vinton could be described as a Glass-Steagall exile.

The US law which strictly separates commercial and investment banking was one factor which prompted Mr Vinton, a US citizen, to accept appointment as chief operating officer at N.M. Rothschild, the UK merchant bank.

After 10 years in London in several senior positions with Morgan Guaranty, the US bank, Mr Vinton concluded that the relative freedom of the City – and the challenge of co-ordinating the disparate strands of the far-flung Rothschild empire – was an irresistible proposition.

Mr Vinton's appointment, announced this week, is the latest signal that Rothschild has grown too large to remain a family-run bank. In the newly-created position, he will answer only to Mr Evelyn de Rothschild, chairman, who is giving up his role as chief executive to concentrate on long-term strategy and development.

Although Mr Vinton will be one of the few Americans to hold such a senior position at a UK merchant bank, his nationality is an irrelevance both for him and for Rothschild, which was attracted by the breadth of his international experience and his 25 years at Morgan Guaranty.

Fred Vinton: facing an irresistible challenge.

His main current project, advising Scandinavian Airlines System on its partial offer for British Caledonian Group, has delayed his appointment, due to take effect on December 1, until the middle of next month. "The battle will have been won or lost by then," Mr Vinton said yesterday.

The battle for BCal is not the first time Mr Vinton has found himself on the other side of the table – metaphorically, at least – from Mr Paul Channon.

Mr Channon, now Transport Secretary, was Trade and Industry Secretary last year when political pressure prompted the Government to block the proposed takeover of Land Rover by General Motors, which was advised by Morgan Guaranty.

However, Mr Vinton has not found that being a US citizen has been any detriment, even in such politically sensitive circumstances. Moreover, he does not expect to face any resistance on that score as he moves to Rothschild from the scarcely less venerable house of Morgan.

"I don't feel like an American," he says. Indeed, few of his 49 years have been spent in the US. He was born and spent his first 13 years in Argentina, where his father worked for Citibank.

Although he graduated from Harvard and served two years as an officer in the US Navy, his links with the homeland have never been tight. "Being brought up outside the US," he says, "I had no particular ties: no old school buddies, no old house to come home to, no old club."

Joining Morgan Guaranty in 1962, on his father's advice, Mr Vinton worked in New York for six years before returning to his native Argentina to run the commercial and treasury operations of Banco Frances del Rio de la Plata, which was 44 per cent owned by the US bank.

For four years from 1973, he ran Morgan Guaranty's Latin American operation from New York.

Mr Vinton came to the UK in 1977, initially as general manager of Saudi International Bank, the consortium bank in which Morgan Guaranty holds a 20 per cent stake. He moved in 1980 to become general manager of the London branch of Morgan Guaranty Trust, and subsequently was also appointed as area head for the UK, Ireland and Scandinavia.

He became vice-chairman of London-based Morgan Guaranty Ltd last year. He presided over the creation of the bank's gilts dealer and the integration of its European security business.

In 1986 he began to concentrate solely on merger and acquisition business for corporate finance clients.

He first met Mr de Rothschild on September 30, 1984, at the Bank of England's secret Sunday night rescue of Johnson Matthey Bankers. Subsequent professional and social contacts led to an initial job offer late last year.

His ultimate decision to cast his lot in the UK was affected by more than professional considerations: he has been married since 1983 to Ms Anna Hawser, founder and co-owner of the Reject Shop retail chain.

Turkish yarn 'a threat to British producers'

BY ALICE RAWSTHORN

THE TEXTILE industry has warned the Government that a continued influx of cheap acrylic yarn from Turkey could cause serious problems for British yarn producers.

For months the industry, in common with other European textile sectors, has lobbied the European Commission to secure agreement for the imposition of voluntary restrictions on acrylic yarn imports from Turkey.

The industry had hoped that such an agreement would resolve the issue. But when the EC negotiations with the Turkish Government were concluded a fortnight ago, the maximum level of imports was not reduced, as the industry had hoped, but increased.

Under the new agreement, imports of Turkish acrylic yarn next year will be "restricted" to 5,000 tonnes. This represents a slight rise on the estimated level of imports this year. The industry claims that this increase could destabilise the yarn spinning sector in Britain.

Mr Alistair Henderson, president of the Confederation of British Wool Textiles, has requested an urgent meeting with Mr Alan Clark, Trade Minister, to demand that the agreement be reviewed.

The flow of Turkish yarn into Britain began in earnest two years ago. In 1984 imports from Turkey ammounted to just 45 tonnes, according to the British Textile Confederation. By last year this influx had increased to 3,227 tonnes,

So far there is little evidence that the influx of cheap Turkish yarn has damaged the British manufacturers in Lancashire and West Yorkshire. However, there have been recent reports of short-time working in Yorkshire mills.

Minister will discuss Housing Bill concerns

BY ANDREW TAYLOR

MR WILLIAM WALDEGRAVE, Housing Minister, has said he will meet local authority leaders to discuss their concerns about the Housing Bill currently going through the committee stage in Parliament.

Mr Waldegrave has asked officials to set up an agenda for a series of meetings to take place early next year between ministers and council leaders.

The proposal for talks was made earlier this week at a meeting between Mr Waldegrave and local authority representatives.

The Government considers its measures to encourage greater private investment in rented housing will stand a better chance of success if broad agreement on its proposals can be reached between the main parties as well as by local government.

Labour members on the Commons committee take the view that their best chance of amending the bill lies in persuading the Government that private investors will not risk their money while there is a chance that a Labour government might reverse its measures.

Committee hearings that began this week were punctuated by numerous references from Labour members about the need to return to a consensus between the parties on housing policies.

A series of amendments demanding that existing safeguards on assured tenancies be maintained was defeated by 16 votes to 13.

Significantly, however, Mr Waldegrave did not rule out the possibility of further discussion over whether landlords offering assured tenancies should be required to register with an approved body.

●THE PROPERTY MARKET

Conferring business on Edinburgh

By William Cochrane

PETER EYLES, son-in-law of the late Sir Maxwell Joseph, is in the business of making money from hotels. In pursuit of that objective, he says, he could spend three years merely approaching one hotel acquisition.

There are other, more public approaches. This week, for the same reason, he proposed to do for the Edinburgh office property market what Rosehaugh Stanhope's Broadgate development is doing for the City of London – in pre-empting a large slice of the city's office property needs with one major development.

Mr Eyles is managing director of Norfolk Capital, the upwardly mobile, yet traditional, hotels group which aims to give businessmen a bit more than a plastic box to sleep in. A little over a year ago, he bought two of Scotland's best-known hotels from Guinness, virtually doubling the size of his company in the process.

The hotels are the five-star Caledonian and the four-star North British, respectively located just off the western and eastern ends of Princes Street, Edinburgh's prime shopping street and a major tourist attraction. However, hotels prosper on high occupancy ratios and the climate on Scotland's eastern seaboard does not enhance its tourist attractions between November and March.

The obvious answer is to attract conference business, and the businessmen Norfolk Capital likes to coddle. What Edinburgh lacks is a major conference centre.

Edinburgh knows that. Plans exist for a £30m conference centre on a site just behind the Caledonian Hotel, involving the district and regional councils and the chamber of commerce. The project needs government capital and the Treasury has been considering whether to authorise the Scottish Development Agency, which is responsible for much industrial and inner city regeneration in Scotland, to invest £10m in the project and unlock other official funds.

The city fathers did not like it this week when Heriot-Watt University announced a 700-seat conference centre to be built for £3m on its Riccarton campus eight miles west of the city centre – somewhat tactlessly proposing to call it the Edinburgh Conference Centre. How will they take to Norfolk Capital?

Mr Eyles believes that the government does not like Scotland enough to authorise the SDA spending. So he has come up with a scheme of his own to generate £30m of development profit which, he says, he is quite prepared to donate to the cost of the conference centre. This, of course, would do wonders for the Caledonian's occupancy ratios and, he says, give a lift to the North British despite the fact that it is a mile away.

His planning application covers Phase I, 100,000 sq ft of neo-classical office space to be known as the Caledonian Business Centre to be built in the hotel car park. Phase I also includes the realignment and expansion of the Caledonian Hotel itself in a redevelopment which would add 40 bedrooms, reception, function and banquesting facilities.

Phase II would entail Norfolk constructing a 1200 seat conference and arts centre on the ground, first and second floors of the Caledonian Business Centre. The conference centre would be financed by the creation of a total of 300,000 sq ft of net lettable office space on the site behind the Caledonian, owned by the City council and officially earmarked for the conference centre and office development.

Architect George Keith, of Hugh Martin and Partners, said in Edinburgh this week that the extremely congested access to the Caledonian, at the corner of Princess Street and Lothian Road, would be dealt with by creating a new reception area at the rear – "a garden forecourt, a Rialto, so that people will come to the city and meet in the Caledonian." There would also be a new leisure complex and an arcade linking Princes Street with the new reception area.

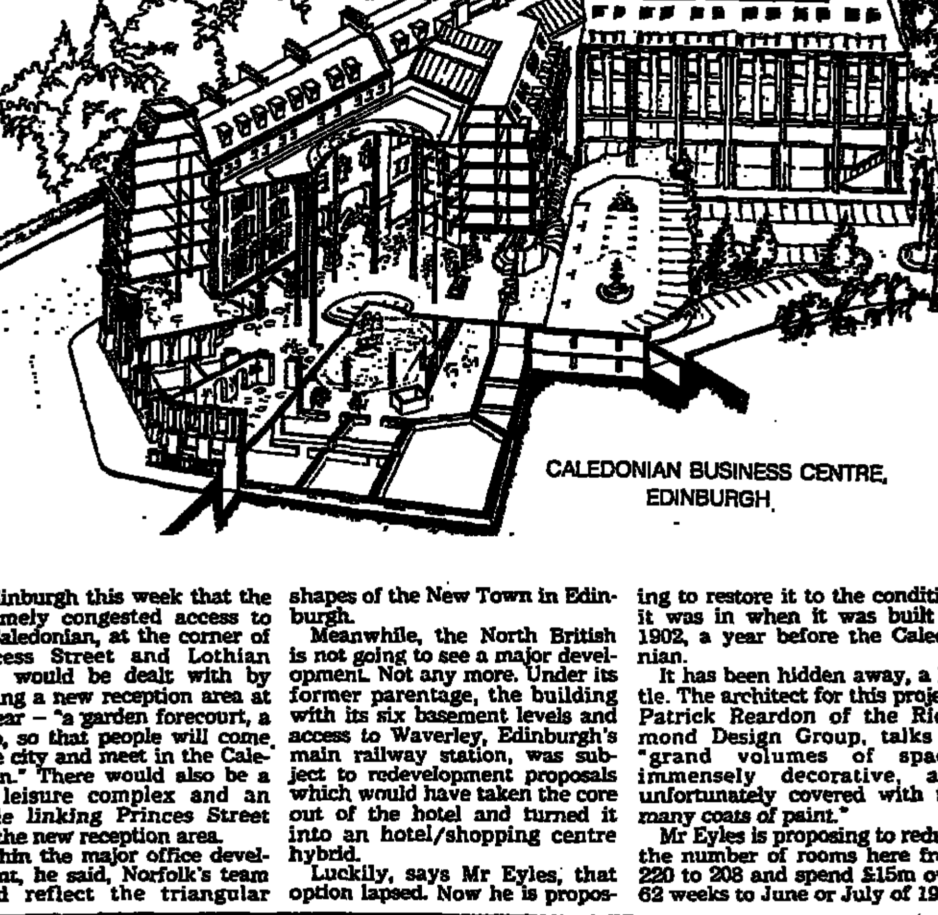
Within the major office development, he said, Norfolk's team would reflect the triangular shapes of the New Town in Edinburgh.

Meanwhile, the North British is not going to see a major development. Not any more. Under its former parentage, the building with its six basement levels and access to Waverley, Edinburgh's main railway station, was subject to redevelopment proposals which would have taken the core out of the hotel and turned it into an hotel/shopping centre hybrid.

Luckily, says Mr Eyles, that option lapsed. Now he is proposing to restore it to the condition it was in when it was built in 1902, a year before the Caledonian.

It has been hidden away, a little. The architect for this project, Patrick Reardon of the Richmond Design Group, talks of "grand volumes of space, immensely decorative, and unfortunately covered with too many coats of paint."

Mr Eyles is proposing to reduce the number of rooms here from 220 to 208 and spend £15m over 62 weeks to June or July of 1989.



CALEDONIAN BUSINESS CENTRE, EDINBURGH

The battle for office space

By James Buxton

"WE COULD let 300,000 square feet of office space now if we had it," says Mr Jim Fiddes of Kenneth Ryden and Partners, one of Edinburgh's leading chartered surveyors.

In the past two years rents for prime location office space - in Charlotte Square, the heart of the financial district, for example - have risen from between £6 and £7 per square foot to £10 and even up to as much as £12.

The expansion of financial services - employing at least 18,000 people - is the main cause of the rise. But the growing demand, fuelled also by the generally improving economy, is running up against a logjam in the supply of office space which is only now beginning to be broken.

Mr Fiddes' rough figure of 300,000 square feet needs to be set against the findings of a recent survey of the city's financial institutions which showed that by 1992 they expect to require an extra 743,000 square feet of space on top of their existing 1.83m square feet - a 40 per cent rise. That does not include demand from other sectors.

Fearful that new jobs in financial services might go to Glasgow for want of space in Edinburgh, the Labour-controlled district council this year signalled the loosening of constraints which have been in force since 1974.

Two projects now look set to go ahead. One is a scheme promoted by Murray International Metals which includes about 350,000 square feet of office located at Fountainbridge, at the outer end of the west-central area, south of the existing financial district.

And only last week the district council approved a project to fill the Castle Terrace site, once destined for an opera house. On it is to be built a prestigious financial centre, complete with an auditorium and public rooms, and 130,000 square feet of office space, promoted by Noble and Co, the finance house, and Scottish and Metropolitan Property.

But between these two projects stretch the empty wastes of the Lothian Road site, now a car park. It is here that the city wants to build its international conference centre complex, which will include 300,000 square feet of office space, and where Norfolk has now put up a rival scheme. Until this site is filled both developers and tenants may be reluctant to go beyond it. And it will be several years before the projects now definitely in the pipeline come to fruition. In the meantime rents should continue to climb.

● FT LAW REPORTS

Employee's error loses patent

RE TEXTRON INC
Court of Appeal (Lord Justice Fox, Lord Justice Croom-Johnson and Lord Justice Mustill): December 3 1987

A SYSTEM for checking patent renewals is under the patent-owner's "control" if he set it up within his own organisation; and accordingly a patent which lapses through his employee's failure to operate that system correctly will not be restored to the register.

The Court of Appeal so held when dismissing an appeal by Textron Inc from Mr Justice Whitford's decision upholding the Comptroller of Patent's refusal to restore a lapsed patent.

Section 28 of the Patents Act 1977 provides that where a patent has lapsed through failure to pay a renewal fee, the proprietor may apply within one year to have it restored and the Comptroller must restore it if he is satisfied that:

"(3) ... (a) the proprietor ... took reasonable care to see that any renewal fee was paid within the prescribed period ... and (b) those fees were not so paid because of circumstances beyond his control."

LORD JUSTICE MUSTILL said that although a grant of letters patent took effect for 20 years, section 25(1) of the Patents Act 1977 stipulated that it should cease to have effect at the end of the period prescribed for payment of any renewal fee.

Where a patent lapsed through failure to pay a renewal fee within the prescribed period, the proprietor might apply within one year to have it restored.

By section 28(3) of the Act, the Comptroller must restore the patent on payment of the fee if satisfied that the proprietor had taken "reasonable care" to see it was paid in time, and if it was not paid because of circumstances "beyond his control".

The present appeal was concerned with a patent owned by Textron. The first renewal fee was due on August 20 1983. The period of grace expired on February 20 1984 without any payment having been made. The patent lapsed.

The reasons for Textron's failure to pay the renewal fee were that in 1981 it entrusted renewal of its patents to a specialist organisation called Computer Patent Annuities Inc (CPA). Textron supplied data for CPA's computer and, when a patent fell due for renewal, CPA sent Textron reminders.

Textron also received warning notices sent out by the Patent Office.

It devised a system whereby a Miss Pointer would check any Patent Office notices to make sure they related to patents which it had decided to abandon. Any notice which did not relate would be brought to the attention of Mr George Galerstein, who was responsible for Textron's industrial property matters.

Two mistakes were made. The first was made by CPA, as a result of which the relevant entry disappeared from its computer so that no reminder was generated. The defective system was changed in 1982.

The second mistake occurred in Textron's office. If its system had worked correctly, the Patent Office notice would have been checked against Textron's records, and it would have been discovered that the patent was not being abandoned.

That did not happen. The mistake came to light in April 1984 when a lapsed notice was received by Textron from CPA. Mr Galerstein realised there had been an unintentional failure to pay the renewal fee. Textron applied for reinstatement of the patent.

The superintending examiner found that Textron had taken reasonable care to see the fee was paid at the proper time, by putting the matter in the hands of professionals; and that CPA's error in entering the details of the patent was due to circumstances beyond Textron's control.

But he also found that Miss Pointer's mistake in overlooking the reminder was not beyond Textron's control, so that it failed to satisfy section 28(3)(b).

He therefore dismissed the application. Mr Justice Whitford upheld the decision for substantially the same reasons.

On the present appeal the dispute centred on the meaning of "beyond his control" in section 28(3)(b). Textron said Miss Pointer's mistake was beyond its control, because where a corporate proprietor was concerned, the word "his" denoted only the higher management of the company.

First, it was suggested that it was appropriate to apply the concept of respondent superior by attributing to Textron the fault of its servant. The doctrine extended the area of responsibility for the wrongful act of a servant – the servant remained liable for the wrong, but the master was answerable as well.

That concept had no bearing on the case. Miss Pointer committed no wrong vis a vis any third party when she failed to operate the system correctly. Vicarious liability in tort had nothing to do with the case, which was concerned, not with a servant's wrongful act, but with whether the servant was within Textron's control.

Second, it was contended that authoritative guidance was to be found in *Tesco Supermarkets [1972] AC 153* which related to a corporate offence under the Trade Descriptions Act 1968.

Section 20(1) of that Act provided that where an offence was attributable to any "director, manager, secretary", he as well as the body corporate was guilty. Section 24(1) provided it was a defence if he had taken all reasonable precautions to avoid commission of the offence by any person "under his control". The House of Lords concluded that the default of a manager was something for which, in the absence of a failure by the higher management, the company had a valid excuse.

Tesco did not have direct bearing on the meaning of section 28(3)(b). The 1968 Act was criminal legislation, expressed in very different terms.

Textron contended that section 28(3) was intended to relieve a proprietor who was blameless and should therefore be interpreted in favour of restoration of the patent.

That argument begged the question. It did not advance the matter to ask whether Textron was blameless, since that was much the same as enquiring whether Miss Pointer's mistake was within Textron's control.

With regard to the language of the statute itself, the comptroller's argument seemed as unanswerable as it was simple. Substitute the name of Textron for "the proprietor" in section 18(3), it was argued, and then ask whether failure to pay the renewal fee was beyond Textron's control. Plainly not, it was said, for nobody else made the relevant mistake – only Textron was involved.

Payment of the fee was not the subject of any duty on the proprietor's part, but was a prerequisite of the patent's continued existence. When choosing a particular way of keeping the patent in being, a proprietor was not delegating anything, but was simply organising part of his business.

There was nothing anomalous in holding that if he organised it so that the requisite steps were to be performed by those he employed and could therefore control, their mistakes should be for his account under section 28(3)(b). If he contracted the matter out, he would not suffer for the contractor's mistakes.

On the ordinary meaning of section 28(3)(b), the omission by Textron's employee was not a circumstance beyond its control. The appeal should be dismissed

Lord Justice Fox agreed.

LORD JUSTICE CROOM-JOHNSON, also agreeing, said that if one substituted Textron for "the proprietor of the patent" at the beginning of section 28(3)(a), and for "his" in section 28(3)(b), the meaning was clear. Miss Pointer's failure to carry out the necessary check was within Textron's control.

For Textron: Simon Thorley (Needham & Grant).

For the Comptroller: Nicholas Pumphrey (Comptroller General of Patents).

By Rachel Davies
Barrister

TECHNOLOGY: Computing

BY ALAN CANE

How Blyth travelled the same road as Apple's bandwagon

Its reputation founded on a relational database for the Macintosh, the small UK company has gained market leadership in a major industry sector

THE DIRECTORS of Blyth Software, a small but rapidly expanding company based in Saxmundham, Suffolk, are either enormously lucky, enormously gifted or, most likely, a judicious mixture of the two.

Blyth – it is named after the river that runs through the quiet East Anglian village – is one of the very few UK software companies which can legitimately claim to have market leadership in a major industry sector.

Its reputation is founded on the relational database software it wrote for the Apple Macintosh microcomputer; its future, however, is tied to a version of the same software it has developed for the IBM Personal System/2 microcomputer.

Why should it be considered lucky (or merely brilliant)?

First, it wrote its Apple relational database, Omnis, at a time when there was no certainty that the Macintosh would prove a commercial winner.

The Macintosh was considered an idiosyncratic machine at the time; it followed ideas for the interworking of man and machine developed at Xerox's Palo Alto Research Center but which were relatively new to the data processing community – ideas like video screens which could be divided into separate windows and pictures on screen to indicate commands to the user.

It was also, in its first incarnation, hopelessly short of memory (128,000 characters) and a little insubstantial, compared with the IBM PC or compatible models from rival manufacturers. Nevertheless, Paul Wright, the company's managing director was impressed: "We liked the Macintosh approach. We were convinced it was the right way for us to go."

The machine gradually began to find favour both in the educational and business community, especially after the arrival of a version sporting 512,000 characters of memory, but Blyth still lost a lot of money in its first years of trading in the US. The US, in fact, did not make any significant contribution to the company's revenues until the middle of 1985.

Now the company has sold or licensed some 50,000 copies of the Omnis family of programs worldwide.

Relational databases are the most technically sophisticated and exciting development in file management. The theory is that the information in the database is stored in such a way that the relationships between different pieces of data can be clearly expressed.

The data can be viewed from a number of different angles. To take the example of a typical company's records, a manager might want to know the performance of all the salesmen on the staff. The personnel officer might want to know their ages and details of their pension plans. The salaries department might want details of their payments to date.

The principles of relational database management were established in the 1960s and 1970s by the IBM researcher, Ted Codd.

Blyth's software expert, David Seaman, a trained mathematician was only vaguely aware of Codd's work when he sat down to write the relational version of Omnis - the result was unique; a relational database which also had elements of the traditional hierarchical approach.

Wright says: "We would not have done it that way if we had known of Codd's work".

Relational database management systems like Omnis have another special quality. They resemble fourth generation languages, computer software which makes it easy to write computer software. According to Blyth, Omnis allows users the flexibility to create their own applications.

While the Macintosh version of Omnis has been the primary contributor to the company's present £4m turnover, it has not neglected the IBM marketplace.

Its most recent product is a new version of Omnis, Quartz, which runs on the IBM Personal System/2 under graphics management software developed by the major microcomputer software company Microsoft.

This "Presentation Manager" is an advanced part of the operating system for the PS/2. It will not be available until late next year.

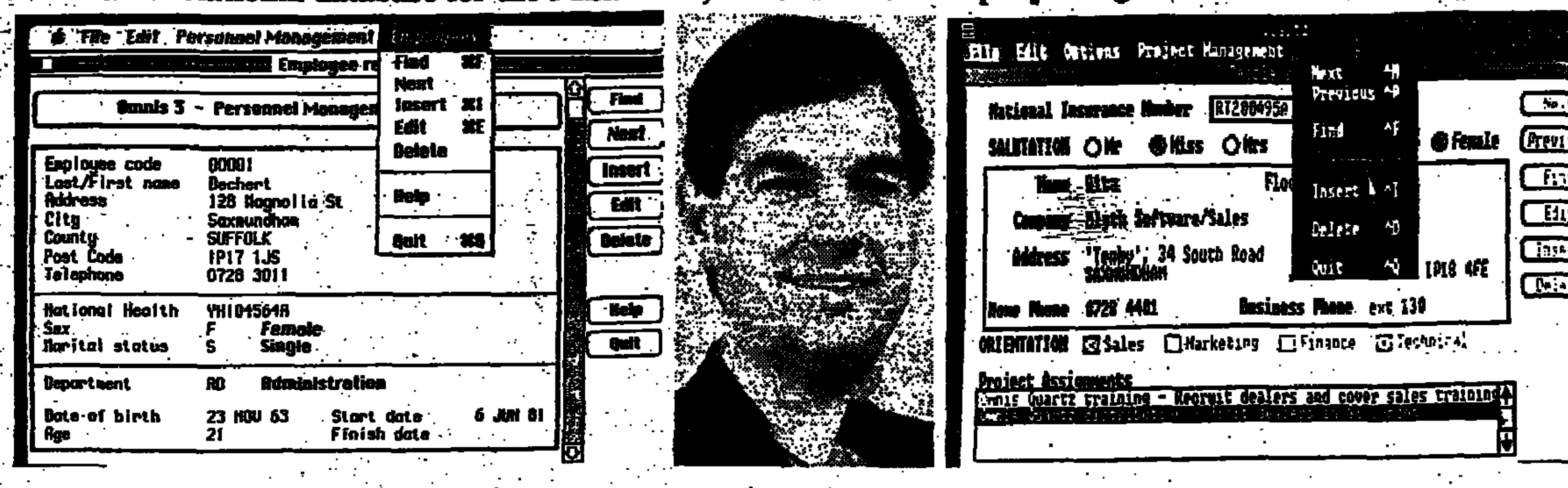
Functionally, however, it is identical to Microsoft's own graphics management software "Windows"; Omnis Quartz runs happily under Windows software, and Blyth believes it has up to a two year lead in the development of relational database software for the PS/2.

Was the company lucky to decide to carry out its development on Windows or was it excellent judgement of the way the market was going? It argues *that PS/2, Windows and Presentation* Manager signal a major change in the personal computer market towards the use of mouse-driven, graphically orien*tated user interfaces and that it* is well positioned to take advantage of that change.

The market for all microcomputer database software is expected to be more than \$800m a year by the 1990s.

Over 50 per cent of Blyth's earnings come from the US at present which is one reason it decided to raise money earlier this year on the New York stock market. It raised \$7m just before Black Monday when the bottom fell out of stock markets around the world. Wright recalls the perspiration which accompanied his anxiety until the money was safely in the bank.

Now *that* was luck!



Paul Wright, founder and managing director of Blyth Software, liked the Apple Macintosh approach (left) to screen layout. His new product, Quartz (right), uses the same technique in conjunction with IBM's Personal System/2

Numbers underline IT interest

ONE MEASURE of the interest developing in methods of integrating information technology into business strategies is rapidly growing membership of special interest groups like the UK Computer Measurement Group (CMG) and the UK Society for Information Management (SIM).

The CMG, started just over a year ago expected 100 delegates to its first conference and actually had 251.

Now it has over 1,100 members and is Europe's largest non-vendor driven group for medium to large scale users and suppliers. Its next conference, "The Effective Management of IS Resources" will be held at the Savoy Hotel, London, on January 18.

The group's main conference "Effective IT" will be held in Harrogate between May 16 and 19, 1988, when speakers will include Gene Amdahl and Iann Barron.

Software solution will take 10 years to mature

COMPUTER aided systems engineering (case) methods are the most promising solution to the "software crisis", but it will be at least a decade before companies start to use them in a big way.

So says a new and detailed report* on commercial strategies for the case market from the consultancy Ovum published this week.

It says that while the market growth of case products will continue to be spectacular, with short-term growth rates approaching 100 per cent: "It will take at least 10 years for case to mature. There are many major commercial and technical decisions to be taken before the use of case reaches the status of a major technology in widespread use by software development professionals."

Case methods are designed to make use of computer power to help software specialists develop programs more rapidly and efficiently.

At present, according to Julian Hewett and Tony Durham, the authors of the report, large software projects – that is those involving more than 60,000 lines of computer code – end up on average costing twice as much as initial budgets.

They are typically delivered up to one year late – a quarter of them are never delivered at all. The report records a survey of 125 companies, carried out in the US by Applied Research of New Jersey, which showed that as many as 75 per cent of all software projects are cancelled – often because the projects are obsolete before they are completed.

And quality of the finished product is often low – two thirds of the computer specialists employed by most companies are tied up on full time "maintenance" – repairing errors in the software or putting right features that were written wrongly the first time round.

Case methods offer some prospect of an end to this waste of time, effort and money. The Ovum report distinguishes three groups of case products: integrated project support environments "ipses", computer systems which manage and control large projects, code generators which automatically produce computer code from high level specifications and programming and analyst workbenches, which aid the systems analyst in the early stages of the project.

Case methods undoubtedly work. The Ovum report quotes the example of Information Engineering Associates, a group providing development services inside the massive Du Pont chemical company.

It has made extensive use of a case tool called Application Factory from a small software house called Cortex; now it is actually involved in funding development work at Cortex.

An early example involved the development of an inventory control system for a particular kind of carpet fibre. Estimates of the effort required to write the system using traditional methods varied from 28 person months to 39 person months.

Using Application Factory the development took only five person months at a cost of \$6,000 a person months. That meant a saving of \$138,000 or over 80 per cent of the estimated cost of the project.

The productivity gains measured at Du Pont were in the region of six to one.

So if it is that good, why isn't everybody using it? The fact is that there are some hefty barri*ers to the easy adoption of case* methods, even where they can be seen to work.

The report notes, for example, that the Hartford Insurance Group in Connecticut developed a case tool it named "The Solution". It set up a spin-off company, Hitech, in association with the minicomputer manufacturer Wang to market the system.

At Hartford, the product could be shown to have given productivity improvements of up to 30 per cent, yet after extensive marketing and no sales, the project was abandoned.

The chief difficulty seemed to be that while prospective customers recognised the advantages of the system in use at Hartford, they were unable to carry out a similar analysis in their own organisations.

Jack Crawford, former president of Hitech says: "The assumption with our product was that the leading corporations had a common life cycle for all their applications development and an effective measure of productivity. Many had neither. These are the nation's biggest companies. That is what is so surprising and disturbing.

Indeed, it seems that of the million or so professional software developers in the US, only about three per cent are actively using case products.

Reflecting Jack Crawford's views, the report concludes that the difficulty of measuring the effects of software engineering is a major factor holding back their wider utilisation.

"The difficulty of estimating and collecting 'metrics' about software development means that most organisations have no basis for cost justifying investment in case, because they have no means of measuring its impact," the report points out.

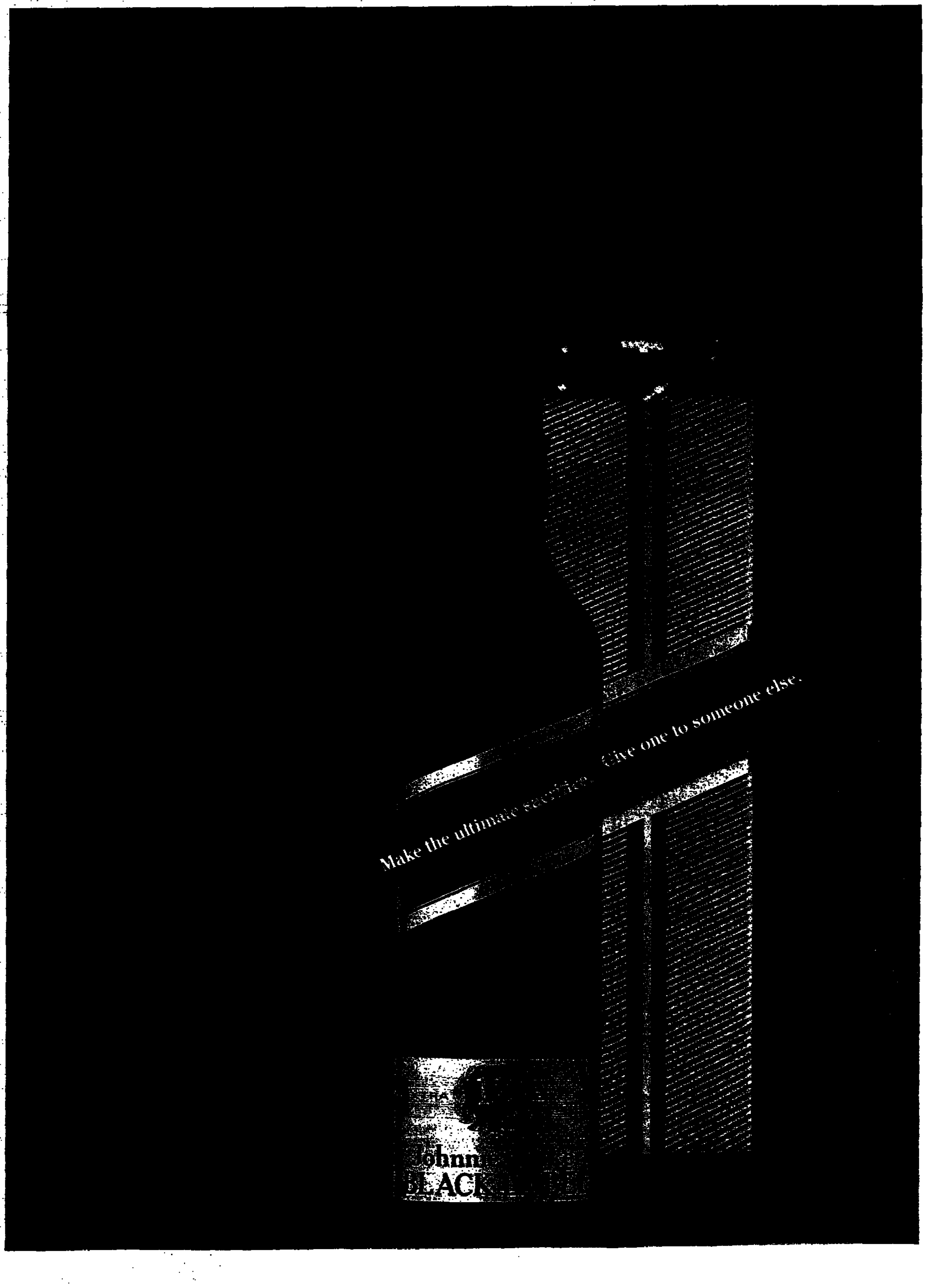
Many organisations are therefore investing because of their "gut feel" that something needs to be done to improve software development.

Furthermore, in the main, case products have been developed and endorsed by small companies. IBM has conspicuously stayed on the sidelines; in computing circles the world's largest manufacturer has to show obvious interest before a new market can be regarded as legitimate. Digital Equipment (DEC), on the other hand, has developed a set of case products, the Vaxset, and is encouraging third party software developers to create products for use on DEC hardware.

Today's case technology may be only, as the report notes, a first nervous step along the long path of providing automation and support for software engineering methods, but it is already worth \$140m a year in the US alone.

By 1991 it should be worth over \$1bn, but there is likely to be a drastic reduction in the number of suppliers. Too many, Ovum says, are small and unable to survive the long selling cycles involved in marketing these products.

**Computer-aided software engineering: commercial strategies, Ovum, London (01) 637 4661, £385 (US:\$595).*



Robert Maxwell: a lone striker or a team player?

Michael Skapinker examines the style of the enigmatic head of the rapidly expanding UK-based group with interests ranging from printing and publishing to football

"IT'S JUST NOT true," says Robert Maxwell, when reminded that this newspaper once called him the most unwilling delegator in modern business. "If you can run a business that employs 45,000 people and be the worst delegator – you're welcome."

The average newspaper reader or television watcher could, however, be forgiven for thinking Maxwell still runs his empire single-handed.

One moment he is in Paris, winning a stake in the French television channel TF-1. A short while later he is in New York, masterminding his bid for the US publisher Harcourt Brace Jovanovich. The bid fails, but, undeterred, he sweeps into Tokyo with plans for an international English-language newspaper which will provide news from Japan.

He did, it is true, delegate the chairmanship of Watford FC to John Holloran, his executive vice chairman and head of his UK printing operations, when he bought the club recently from the rock singer Elton John.

But then Maxwell is already chairman of another football club, Derby County. And it was Maxwell, not Holloran, who defended the decision to buy Watford and who lambasted the Football League's administrators for being "incompetent, selfish, bungling amateurs."

And yet there is a certain logic to Maxwell's insistence that he could not possibly run businesses as large as his without delegating substantial responsibility to others.

Maxwell Communication Corporation (formerly the British Printing and Communication Corporation) is now the largest printing business in Europe and one of the largest in the United States.

It was constructed on the base of the old struggling British Printing Corporation, which Maxwell acquired in 1981 and restored to health – a feat which many in the print industry had adjudged impossible.

Also under the MCC umbrella is Pergamon Press. This includes Pergamon Journals, the scientific and technical publishing business which Maxwell built up after the Second World War, only to be ousted from its board in the disastrous setback which culminated in a 1971 Department of Trade and Industry report declaring him unfit to exercise proper stewardship of a publicly quoted company. No charges were brought against him and he regained control of Pergamon in 1974.

The Maxwell family also owns Mirror Group Newspapers and has a controlling interest in Hollis, the engineering, timber, financial and professional services company.

And yet he finds time to stalk the financial services group Guinness Peat, to run football clubs, to take charge of last year's Commonwealth Games, to head an Aids trust. How does Robert Maxwell manage?

To hear his senior executives and supporters in the City tell it, MCC has undergone a substantial transformation. Apart from changing its name, they say, it has also altered its management style.

Maxwell himself is concentrating far more on the strategic management of the group, they contend, leaving day-to-day matters to newly-appointed professional managers like Holloran and James Sullivan, who runs the North American side of the business.

Holloran, recruited earlier this year, was formerly chief executive of the rival printing company McCorquodale. Sullivan, who joined Maxwell last November, had previously spent 18 years with the leading US printer R.R. Donnelley. He runs the North American operation together with three other former Donnelley executives.

Henry Poole, of Maxwell's brokers Alexanders, Laing and Cruickshank, argues

that the appointment of experienced managers like Sullivan and Holloran marks "the beginning of a new phase". In the years when he was fighting fires and print workers, and rescuing BPCC from bankruptcy, Maxwell's intense personal involvement in every aspect of the company was essential.

But now that the company is back on its feet, he can devote more time to pursuing his strategic goal: turning the group into a global information and communications organisation with annual revenues of at least $3bn "and earnings per share to match" by the end of the decade.

But how conventional a company has MCC really become? Does it, for example, actually train its managers? Maxwell, in his Holborn Circus headquarters, reaches for the phone.

"Can you get me Peter Bouch please?" he says. "Peter, I've been meaning to talk to you for some time about where this management development programme is. You haven't reported to me. Or have you sent the reports and I haven't seen them?.... Oh, you now report to John Holloran."

Budge apparently tries to explain why he no longer reports to Maxwell. "No, no," Maxwell reassures him, "I have enough people reporting to me. So you now report to him. Is he happy with your programme?.... Where are you speaking from? Could you bring me or, if it's not convenient, send me over the copy that you gave to the board?"

Maxwell puts down the phone. "There you are," he says triumphantly, "Mr Holloran is taking over my responsibility for management development. I'm shedding responsibilities as fast as possible in order to concentrate on the strategic planning of the group."

Maxwell tries to remember whether Holloran went to Harvard. "I don't know that he is a graduate. I think he was one of those who went to Harvard." He dives for the phone again and asks for Holloran. Holloran is in a meeting. "Everybody you want, they're in meetings," Maxwell says cheerfully.

One of his managers walks into the room. "Did you go to Harvard?" Maxwell asks him. "I did, yes," his visitor replies. Maxwell introduces him as Mr Garwood, group personnel director.

Garwood says he attended a three month course at Harvard. "And how many people do we plan to send on this course?" Maxwell asks Garwood.

"Well," says Garwood, "I hope we would get to a position where, certainly at director level, subject to your approval, we would be sending, I would hope, one senior director per year."

"I would increase that to two," says Maxwell. "Marvellous. Thank you very much," says Garwood.

A while later Peter Bouch brings in the report on management development. Maxwell orders him to hand it over to the FT. He does so without demur. The report has been prepared by the Hay Group of management consultants. It outlines the strengths and weaknesses of eleven of the group's companies and identifies their training needs.

The phone rings again. Maxwell demonstrates his celebrated ability to switch to a totally different subject. "Hello, good afternoon to you," he says. "What about 93? All right you've traded half a million at 93.....What for?....what about it?....Canadian or American? Write me a letter, I'm very pushed. We've dealt for half a million at 93."

It has been said that managers who stand up to Maxwell don't last very long. Does he welcome people who go against the grain? "People should go against the grain. If you don't have people who go against the grain nothing ever gets done," he says. "Organisations, like individuals, make mistakes." Including himself? "Including myself. I above everybody else."

Kevin Maxwell (below) on Robert Maxwell (right): "Where he does intervene, where he does take decisions, where he's there driving it, that's inspirational. I'm certainly not afraid to say that"

And does he mind having those mistakes pointed out to him? "I don't enjoy it, but I certainly don't object to it. And I will act on putting them right and say that I'm sorry."

A few days later, an urgent request comes from a secretary at Holborn Circus. Please return the management development report. We need it back.

Is it ever possible to tell Maxwell that he is wrong? "As with any chief executive, if there's something you don't like you have to argue your corner. You win some and you lose some," Holloran says.

Or, as James Sullivan puts it, Maxwell "is the kind of guy that if you have any self-doubts, you'd probably fall over into a puddle of water in front of him."

But then even those who claim that Maxwell is increasingly delegating his responsibilities do not deny that he still exercises an overwhelming personal influence on the organisation.

"This isn't the civil service. If people wanted to work for a faceless bureaucracy, they would," says Kevin Maxwell, chief executive of MCC's publishing wing, Pergamon Press. Kevin is the boss's son, and - everyone agrees - his heir apparent. He refers to his father either as RM or as Mr Maxwell. "RM's touch is on this business," he says. "Where he does intervene, where he does take decisions, where he's there driving it, that's inspirational. I'm certainly not afraid to say that."

John Holloran, however, brushes aside the stories that Robert Maxwell signs every cheque and participates in the hiring and firing of every employee. "I brief him on various issues that are going on, that I consider he should be aware of. I seek his guidance. But I hire and fire people. I sign off £1m capital investment without referral."

However, one analyst believes that, despite the appointment of new managers, nothing has really altered. "To pretend that there's any vague sense of conventional management structure is nonsense," said one analyst. "Maxwell hasn't changed suddenly. He will interfere at any place and at any time."

Does Maxwell still intervene in the running of Holloran's business? "My view is that it's beneficial for the chairman to have total free rein. If he wants to call up one of my managers, it doesn't bother me. I think that's been misconstrued," Holloran says.

Even the sceptics admit that Maxwell, much as he might like to, cannot phone everyone's managers every day. They *tend to believe James Sullivan's claim* that he is allowed to run the North American business himself. Sullivan says that Maxwell monitors the financial performance of the North American company, but "on the operational side he leaves me very much alone. When I have something to discuss with him I discuss it."

It is clear, too, that John Holloran does have detailed plans for the development of his managers, and Maxwell is not aware of every aspect of them.

Perhaps of greater importance than whether Maxwell allows his managers to manage, is whether MCC will eventually have the sort of structure which could survive without him.

If Maxwell himself is to be believed, we might not have to wait long for the answer to that question. When he has *achieved the goal he has set for MCC* "I shall go off and smell the roses," he says. "Well so I tell myself. Nobody believes me, but there it is. They'll have to find out the hard way."

The idea that Maxwell might retire provokes disbelieving laughter among some at MCC. But Maxwell has a penchant for doing the unpredictable. The possibility that he might leave MCC and devote himself instead to one of his other interests – rescuing the British engineering industry, finding a cure for Aids or saving English football – cannot be entirely excluded.

But first he has to reach his goal of $3bn in turnover. MCC expects revenue this year to be $1bn. Closing the gap will require further acquisitions. The group to which Maxwell says farewell might look quite different from the MCC of today.

Whether those managers who already form part of MCC could get along without Maxwell's relentless energy is a question which even they would be hard pressed to answer.

Leadership

Where reality does not tally with theory

Michael Skapinker reports on a survey of managers' views of their chief executives

"WHAT MAKES a good leader?" is a question frequently asked and seldom satisfactorily answered.

Europe's senior and middle managers think they know what the attributes of a good leader are. They do not, however, think that their own chief executives possess those qualities.

In a poll conducted by Management Centre Europe, 96 per cent of the more than 1,000 managers questioned said that the ability to build effective teams was a premier characteristic of the successful leader. But only 50 per cent thought that their own chief executives knew how to build effective teams.

Ninety-three per cent of the managers thought a good leader was someone who knew how to listen. But only 44 per cent of them described their own chief executive as a good listener.

"Capable of making decisions on his own" was a leadership characteristic mentioned by 87 per cent of the respondents. Their chief executives fared slightly better here. Sixty-six per cent of the managers said their chief executives were able to make their own decisions.

The next most important characteristic of a leader, mentioned by 86 per cent of the respondents, was that he or she "knows how to retain good people". Here, the performance of Europe's chief executives was little short of disastrous. Only 39 per cent of the managers thought their chief executives knew how to hold on to their best people.

Among the other attributes mentioned, 76 per cent of the managers thought that it was important for a good leader to have "high ethical standards." Just 59 per cent of the managers thought their own chief executives were sufficiently ethical.

Only 35 per cent of the managers questioned thought that a good leader should be motivated by power. Yet 59 per cent of them thought that it was power that motivated their own chief executives.

A mere 17 per cent thought that a good leader should be motivated by financial rewards. Forty per cent of the managers, however, thought that their own chief executive was motivated by a desire for money.

Did the managers think they would make better leaders than the current generation of European chief executives? Those respondents who were under 40 were reasonably modest. Only 6 per cent of them thought they already had the leadership qualities to become chief executives.

Sixty-two per cent thought they could acquire the attributes of leadership through "suitable management development". Only 10 per cent said that they definitely did not have the qualities needed to step into their chief executive's shoes.

Of those managers over 40, 12 per cent thought they already possessed the necessary attributes of leadership.

A further 37 per cent thought they could acquire the right qualities through suitable management development. Twenty-seven per cent were certain that they did not have the potential to be good leaders.

Which country, in the opinion of European managers, produces the best leaders? Just over a third of the sample voted for the US and a quarter for Japan.

German, Austrian, Swiss and Scandinavian managers tended to put Japan before the US. On the other hand, managers from France, Spain, Italy and Britain thought that the US was way ahead of Japan when it came to producing leaders.

What of the European countries? Don't any of them produce leaders? Here, MCE said, "there was a definite case of managerial chauvinism, with the French, Germans, British and Italians voting heavily for themselves. Taking out those 'home' votes reduced European leadership to practically nil, with only Germany making any impression at all with a tiny 5 per cent."

When asked which individual leader they admired most, Europe's managers ignored the world of business altogether and voted overwhelmingly for Margaret Thatcher. The British Prime Minister got more than twice as many votes as the Soviet leader, Mikhail Gorbachev, who came second. A corporate leader, Lee Iacocca, did come third. He was followed by Pope John Paul II.

The survey is available from Management Centre Europe, Rue Caroly 15, 1040 Brussels, Belgium. Free.

Company Notices

EUROPEAN ECONOMIC COMMUNITY
ECU 50.000.000
11 5/8 % 1983 / 1993

We inform the bondholders that the redemption instalment of ECU 6.250.000 -, nominal due on February 7, 1988, has been satisfied by a drawing on December 8, 1987, in Luxembourg.

The bonds will be reimbursed at par on February 7, 1988, coupon due on February, 1989 and following attached, according to the modalities of payment on the bonds.

The numbers of such drawn bonds are as follows:

9869 to 16118

The following bonds called for redemption on February 7, 1987, have not yet been presented for the payment:

25352 - 25361	25364 - 25367	25530 - 25531	25720 - 25723
25772 - 25776	25825 - 25826	25872 - 25875	25968
25970	26025	26146 - 26155	26173 - 26214
26262 - 26272	26311 - 26321	26367 - 26377	26379 - 26388
26683 - 26689	26862 - 26864	27026 - 27029	27134
27161	27257 - 27259	27268 - 27300	27365
27893 - 27894	28090 - 28091	28151 - 28156	28446 - 28451
28596 - 28599	28716 - 28724	28729 - 28735	28749 - 28758
28792 - 28815	28826 - 28837	28849 - 28855	28906 - 28915
28960 - 28961	29159	29351	29413 - 29429
29581 - 29588	29706 - 29711	29813	29815 - 29822
29824 - 29826	29835	29978 - 29992	30523 - 30527
30568	30678 - 30680	30688 - 30693	30698 - 30702
30852	30898 - 30900	31062 - 31070	31214 - 31223
31228 - 31236	31250 - 31251	31254 - 31259	31287
19819 - 19824	19826 - 19872	19879 - 19880	19895 - 19896
19904 - 19913	19967 - 19973	19998	20001
20025 - 20027	20061 - 20068	20246	20285 - 20302
20304 - 20328	20365 - 20370	20393	20398 - 20401
20413 - 20416	20437 - 20475	20483 - 20492	20516 - 20545
20576 - 20629	20648 - 20680	20693 - 20694	20717 - 20730
20736 - 20740	20747 - 20754	20757 - 20765	20779 - 20800
20804 - 20826	20837 - 20839	20845 - 20854	20865 - 20882
20890 - 20898	20903 - 20927	20942 - 20951	20955 - 20956
20966 - 20971	20982 - 21007	21009 - 21050	21070 - 21075
21080 - 21100	21466 - 21520	21522 - 21586	21592 - 21623
21628 - 21652	21674 - 21707	21716 - 21763	21769 - 21772
21778 - 21911	21924 - 21933	21935 - 21957	21961 - 21989
21991 - 22132	22146 - 22161	22193 - 22197	22215
22225 - 22229	22240 - 22268	22271 - 22333	22355
22387 - 22402	22413 - 22414	22425 - 22435	22546 - 22568
22672 - 22674	22688 - 22691	22808 - 22840	22888 - 23231
23236 - 23293	23296 - 23301	23308 - 23330	23346
23384 - 23397	23399 - 23419	23430 - 23449	23458 - 23460
23468 - 23473	23504 - 23615	23617 - 23846	23858 - 23886
23962 - 24011	24126 - 24130	24144 - 24450	24453 - 24461
24499 - 24500	24528 - 24529	24554 - 24559	24616
24623 - 24624	24629 - 24633	24639 - 24646	24651 - 24674
24684 - 24726	24733 - 24763	24793 - 24796	24820 - 24823
24827	24870 - 24873	24887 - 24900	24912 - 24918
24945 - 24968	24999 - 25000	31294 - 31334	31337 - 31341
31445 - 31448	31497 - 31503	31536 - 31548	31575 - 31576
31580 - 31581	31645 - 31647	31674 - 31687	31691 - 31939
31955 - 31991	32004 - 32008	32036 - 32039	32177 - 32216

Amount outstanding after February 7, 1988: ECU 31.250.000,-

THE PRINCIPAL PAYING AGENT
SOCIETE GENERALE ALSACIENNE DE BANQUE
15, Avenue Emile Reuter
LUXEMBOURG

DIMOSIA EPIHIRISIS ELEKTRISMOU
(Public Power Corporation)
ECU Denominated Floating Rate Notes due 1997

Notice is hereby given that for the interest period commencing on December 21st, 1987 the Notes will bear interest at the rate of 7⅝% per annum. The interest payable on March 21st, 1988 against coupon No. 6 will be ECU18.9583 per ECU1,000 nominal.

Fiscal Agent
ORION ROYAL BANK LTD

HERON INTERNATIONAL FINANCE B.V.
Issue of up to US$150,000,000 Guaranteed Floating Rate Notes due 1993

NOTICE IS HEREBY GIVEN that for the interest period commencing on December 21, 1987 the US dollar notes will bear interest at the rate of 8⁵⁄₁₆% per annum. The interest payable on June 21, 1988 against coupon No. 3 will be US$42.255208 per US$1,000 nominal.

Fiscal Agent
ORION ROYAL BANK LTD.

BANQUE NATIONALE DE PARIS

Floating Rate Note issue of USD 225 million June 1981/96 the rate of interest applicable for the period beginning 15 December 1987 and set by the reference agent is 8¾% annually.

Legal Notices

IN THE HIGH COURT OF JUSTICE
No:005929 of 1987
CHANCERY DIVISION
IN THE MATTER OF TACE PLC
-and-
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the order of the High Court of Justice (Chancery Division) dated 30th November 1987 confirming the cancellation of the Share Premium Account of the above-named Company of £1,551,000 was registered by the Registrar of Companies on 8th December 1987.

Dated this 15th day of December 1987

Lovell, White & King
21 Holborn Viaduct
London EC1A 2DY.

IN THE HIGH COURT OF JUSTICE
No. 006293 of 1987
CHANCERY DIVISION
COMPANIES COURT
IN THE MEMBER OF WPP GROUP PLC
and
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 7th December 1987 confirming the cancellation of the share premium account of the above-named Company was registered by the Registrar of Companies on 10th December 1987

Dated this 14th day of December 1987
Calow Easton
8/10 Sheffield Street
London WC2
Solicitors for the above-named Company

Art Galleries

Arts Week

F	S	Su	M	Tu	W	Th
18	19	20	21	22	23	24

Theatre

LONDON

The Rover (Mermaid). Jeremy Irons roisters into town in the RSC's Swan production by John Barton of Aphra Behn's rollicking comedy. It plays in repertoire with the Chernobyl play, **Sarcophagus**, an urgent but clumsily crafted hospital drama set in a terminal radiation clinic as the first victims of the disaster are wheeled in. (236 5568/638 8891).

A Man For All Seasons (Savoy). Charlton Heston begs no favourable comparison with Paul Scofield as Sir Thomas More in a leaden production of a play best left to amateurs and schoolchildren. (836 8888).

Antony and Cleopatra (Olivier). Peter Hall's best production for the National Theatre he leaves in 1988 brings this great but notoriously difficult play to thrilling life. Judi Dench and Anthony Hopkins are battle-scarred lovers on the brink of old age. Dench is angry, witty and ultimately moving. (928 2252).

The Phantom of the Opera (Her Majesty's). Spectacular emotionally nourishing new musical by Andrew Lloyd Webber emphasising the romance in Leroux's 1911 novel. Happens in a wonderful Paris Opera ambience designed by Maria Bjornson. (839 2244, CC379 6131/240 7200).

The Balcony (Barbican). Sadly dated and heavy-handed opening to the RSC's Genet retrospective, not helping to fight suspicions that the RSC, certainly in London, is stretched way beyond its creative capacities. Terry Hands directs, Farrah's set looks like a cheap pink brothel and the actors, a dull lot, clump around on high boots in big bulging costumes. (628 8795).

Follies (Shaftesbury). Stunning revival, directed by Mike Ockrent and designed by Maria Bjornson, of Sondheim's 1971 musical in which poisoned marriages nearly undermine an old burlesque reunion in a doomed theatre. Four new songs, improved book by James Goldman. Cast led by Dolores Gray, Julia McKenzie, Diana Rigg, Daniel Massey. All good. (379 5399).

Melon (Haymarket). Alan Bates predictably good in new Simon Gray, clumsily directed by Christopher Morahan, about a jealous publisher viewed in flashback from a psychiatric ward after a breakdown. Menopausal mutterings; not vintage Gray. (930 9832).

Serious Money (Wyndham's). Transfer from Royal Court of Caryl Churchill's slick City comedy for champagne-swilling yuppies: how the Big Bang led to class tumult and barrow-boy dealings on the Stock Exchange. Hot and livid. (836 3028, CC 379 6565).

A Small Family Business (Olivier). Brilliant new Alan Ayckbourn play about Britain on the fiddle in greedy times, selling out to foreigners and keeping it simultaneously in the family. A comedy thriller on the large scale. (928 2252).

NEW YORK

Fences (46th Street). August Wilson hit a home-run, this year's Pulitzer Prize, with James Earle Jones taking the powerful lead role of an old baseball player raising a family in an industrial city in the 1950s, trying to improve their lot but dogged by his own failings. (221-1211).

Cats (Winter Garden). Still a sellout, Trevor Nunn's production of T.S. Eliot's children' poetry set to trendy music is visually startling and choreographically feline, but classic only in the sense of a rather staid and over-blown idea of theatricality. (239 6262).

42nd Street (Majestic). An immodest celebration of the heyday of Broadway in the 1930s incorporates gems from the original film, like Shuffle Off To Buffalo, with the appropriately brash and leggy hoofing by a large chorus line. (977 9020).

A Chorus Line (Shubert). The longest running musical ever in America has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are as auditions rather than emotions. (239 6200).

La Cage aux Folles (Palace). With some tuneful Jerry Herman songs, Harvey Fierstein's adaptation of the French film manages barely to capture the feel of the sweet and hilarious original between high-kicking and gaudy chorus numbers. (757 2626).

I'm Not Rappaport (Booth). The Tony's best play of 1986 won on the strength of its work-of-mouth popularity for the two oldsters on Central Park benches who bicker uproariously about life past, present and future, with a funny plot to match. (239 6200).

Les Miserables (Broadway). Led by Colm Wilkinson repeating his West End role as Jean Valjean, the magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings to Broadway lessons in pageantry and drama, if not strict adherence to its original source. (239 6200).

Starlight Express (Gershwin). Those who saw the original at the Victoria in London will barely recognise its American incarnation: the skaters do not have to go round the whole theatre but do get good exercise in the spruced-up stage with new bridges and American scenery to distract from the hackneyed pop music and trumped-up silly plot. (586 6510).

Me and My Girl (Marquis). Even if the plot turns on ironic mimicry of Pygmalion, this is no classic, with forgettable songs and dated leadenness in a stage full of characters. But it has proved to be a durable Broadway hit with its marvellous lead role for an agile, engaging and deft actor, preferably British. (947 0033).

The Mahabharata (BAM Majestic). Peter Brook's nine-hour interpretation of the world's longest poem inspired the refurbishment of an old Brooklyn vaudeville theatre to accommodate it for a three-month stay as part of the Brooklyn Academy of Music's New Wave Festival. Ends Jan 3 (947 5850).

WASHINGTON

Light up the Sky (Arena). The revival of the Moss Hart comedy features theatre people waiting for the opening-night notices of their latest masterpiece. (488 3300)

TOKYO

Macbeth (Imperial Theatre). Every so often, a Shakespeare production is staged that makes one revise one's view of the play. That such a rethinking should be occasioned by a production in Japanese is nothing short of miraculous. Not only has Yukio Ninagawa transposed the play from medieval Scotland into the world of the Japanese samurai, but he has brought to it an oriental sensitivity and sense of pictorial values that transcends all language barriers. With its blood red sun and falling cherry blossoms, this is indeed one of the most achingly beautiful theatrical experiences of our time. Following its triumph at the National Theatre, London, this revival in Tokyo is an unforgettable experience. (Ends Dec 28). (201 7777)

Kabuki (Kabuki-za). At 4pm a "new" play incorporating elements from existing dramas and based on the story of the 47 loyal retainers adapted, directed by and starring Kabuki's greatest showman, Ennosuke, a specialist in spectacular stunts and quick-change routines. Excellent English earphone commentary. At 11am a potpourri of short items. For those with little time at their disposal tickets are avilable (on the day only) for a single act, but buy an English programme because the earphone commentary does not apply. Ends Dec 25 (541 3131).

Noh (National Noh Theatre, Sendagaya). "Takebun" (noh), "Wakana" (kyogen). Originating in sacred rituals, noh is a predominantly tragic drama of illusion played on an empty stage. Lighter relief is provided by the comic interlude (kyogen). The National Noh Theatre is a beautiful, relatively new building in a mixture of traditional and modern styles. Useful booklets in English on noh and kyogen can be purchased at the theatre's bookstall. (423 1331).

Daisan Butai in "Modern Horror" (Honda Theatre, Shimo-Kitazawa). This extremely youthful theatre group has a large following among the rock video generation, which likes to be bombarded by sound and images. Its latest production is energetic but undisciplined and in the style of a musical revue. It aims at saying something about depersonalisation, but is interesting less as a coherent statement than as an indication of what interests and amuses young Japanese today – namely computers, robots, video, jazz dance, fashion and parodies of popular performers. Ends Dec 29 (367 0292).

Exhibitions

LONDON

Tate Gallery. Turner in the new Clore Gallery. The Turner Bequest, which amounts to nearly 300 oil paintings, finished and unfinished, and a further 19,000 or so watercolours and drawings, has been a source of controversy and dissension ever since it came into the nation's hands more than 130 years ago. Turner always wished for a gallery to himself which would show all aspects of his work. Whether he would have approved of James Stirling's extension to the Tate as a suitable setting is a nice question. The larger paintings may be hung too low for one who lived in a more ostentatious age, and the tasteful oatmeal walls Stirling has decreed for the principal galleries is a far cry from the rich plum he is known to have preferred. The vulgar neo-deco of the entrance hall has little to recommend it. But eight rooms for paintings and one for watercolours give room enough, and with the three reserve galleries upstairs, every painting but the few in restoration or on loan is on the wall.

PARIS

Petit Palais, Ave Winston Churchill; **Musee d'Art Moderne de la Ville de Paris,** Ave President Wilson. Five Centuries of Spanish Art. An ambitious ensemble of four exhibitions retraces the history of Spanish art from the Golden Age to today. The two most important exhibitions are El Greco To Picasso at the Petit Palais and Picasso's Century at the Musee d'Art Moderne. In the Petit Palais is El Greco with a vast visionary Baptism of Christ, Velazquez with a portrait of Philippe IV in his hunting clothes, and Goya with a portrait of Marie-Louise in a black-lace mantilla. Picasso's Century is dominated by the master, from the period of analytic cubism to 20 preparatory sketches for Guernica and to his last works. But there is also Juan Gris, and Miro, Dali and Tapies. Both exhibitions are closed on Mondays and both end on Jan 3.

Grand Palais. The Grand Palais is staging the first retrospective of Fragonard in collaboration with the Metropolitan Museum, New York. About 100 paintings and as many drawings celebrate the artist's love of beauty, in which he saw a manifestation of "nature's perfect health". The depth of observation in his Roman landscapes, mythological scenes and portraits counterbalances the decorative facility of the Scenes Galantes so typical of the 18th century. Ends Jan 4.

Musee des Arts Decoratifs. A King's Table. Some 400 pieces of 18th century silversmith's work from the court of Denmark conjure up the glitter and magnificence of the Service a la Francaise. For the kings of Denmark, as for the rest of Europe, Versailles represented the ideal court setting and they ordered tureen and service dishes, cutlery and candlesticks from the greatest of Parisian silversmiths. The ensemble is made even more precious by the disappearance of the French Royal collections, melted down repeatedly to pay for ruinous wars and at the approach of the Revolution. 107 Rue de Rivoli (42603214). Closed Mon and Tue. Ends Jan 3.

Musee Picasso. Picasso's Drawings. Coinciding with the publication of a catalogue of Picasso's drawings belonging to the Paris Museum, an exhibition of 136 drawings retraces the panorama of the artist's creation. There is his early work of academic perfection confronted with daring shortcuts preparing cubism. The period of Les Demoiselles D'Avignon is evoked by a drawing representing friendship, while portraits of Dora Maar and Jacqueline in the atelier return to a more classical conception. The violence of the minotaur and of the Crucifixion images is followed by variations on Femmes d'Alder. Finally there is his uncompromising, moving reaction to the approach of old age and death. Closed Tue. Ends Jan 4. (427 12521).

Centre Georges Pompidou. Lucien Freud chose the 83 paintings for his first retrospective outside England. Apart from a portrait of Francis Bacon and a series of portraits of his first wife, the exhibition is dominated by his figurative nude portraits of the last 20 years. Closed Tue. Ends Jan 24. (427 71233).

Galerie Odermatt-Cazeau. Maximilien Luce. Luminous and well-structured, he adds realistic images from a working class universe to many of the impressionist's themes of the Seine, the Thames and Saint-Tropez. 85 Bis, Rue du Faubourg Saint Honore (4266 9258). Ends Jan 30.

WEST GERMANY

Munich, Staatsgalerie Moderner Kunst shows sculpture from East Germany. A result of the cultural agreement of May 1986 between East and West Germany, this exhibition covers four decades in 130 sculptures, some larger than life, and about 60 paintings of sculptures by 51 artists. It offers a view of graphic works that have not even been seen in East Germany before. Among the artists are Gustav Seitz, Fritz Cremer, Werner Stotzer, Hermann Glockner, Waldeman and Sabine Grzimek, Ingeborg Hunzinger and Franziska Lobeck. Ends Jan 3: Mannheim Stadtische Kunsthalle from Jan 23 to Feb 21.

Munich, Kunsthalle der Hypo-Kulturstiftung, Theatinerstr. 15: Rene Magritte 1898-1967. This is the first extensive retrospective of the Belgium surrealist shown in Germany. 140 works from museums and private collections in Europe and the US will seek to refute criticism that he was not concerned about what he was drawing. Ends Feb 14.

Stuttgart, Galerie der Stadt, Schossplatz 2. Max Ackermann (1887-1975). The 100th anniversary of his birth commemorated by a comprehensive retrospective with 80 pictures from the main periods of his working life. Ends Feb 21.

ITALY

Rome, Villa Medici (French Academy). Picasso – the last years (1968-1973). The French Academy, proprietorial as ever towards the greatest of modern artists, has mounted a riveting exhibition of etchings, drawings and oils mostly from the last five years of Picasso's life. Having practically never been ill, Picasso had to undergo a serious operation towards the end of 1965 (aged 84). During the following year of convalescence, it seems that he brooded, not only about his health but about having lost his verve and creativity. He need not have worried. The exhibtion is so full of energy, invention and surprise as to be exhausting. The starting point of 1968 is chosen as the year in which Picasso began the first of his last two major series of engravings, known as the 347 Gravures. Many of these are on show and alongside these and many of the drawings have been thoughtfully placed photographic reproductions of works by Ingres, Poussin, Rembrandt, Goya and Manet which must have been at the back of his mind as he worked. Ends Jan 12.

Milan, Palazzo Reale. Eighteenth Century Italian landscapes from private collections organised by the equivalent of the British National Trust, the Fondo Ambiente Italiano. The exhibition includes 70 delightful landscape paintings, divided into three major groups or schools – the Roman (Van Wittel and Hendrik-Frans Van Lint), the Venetian (Canaletto, Bellotto, Guardi) and the Neapolitan (Joli, Bonavia, Tommaso Ruiz and Pietro Antoniani. Ends Jan 17.

NETHERLANDS

Amsterdam, Van Gogh Museum. The complete graphic work of Toulouse-Lautrec. Ends Jan 17.

Amsterdam, Art Institute. 48 key Impressionist and Post-Impressionist works from the Courtauld collection tour America with paintings by Cezanne, Manet, Renoir, Seurat and Gauguin. Ends Jan 3.

Amsterdam, Rijksmuseum Printroom. As a pendant to the survey of landscape painting in the main galleries, the printroom is showing a fine selection of 100 17th century drawings devoted to the theme of Land and Water. Ends Jan 3.

Amsterdam Historical Museum. Contemporary photographs, utensils, menus and registers chart the rise and heyday of Amsterdam's grand hotels from 1860 to 1914. Ends Jan 17.

Amsterdam Rijksmuseum. A sweeping view of 17th-century Dutch landscape painting, with more than 100 works by over 50 artists tracing the development of the genre and its offshoots from the dense creations of Vinckboons and Savery via the chilly winters of Avercamp, the tranquility of Ruysdael, the golden light of Cuyp, the towering cloudscapes of Ruisdael, to the wooded scenes of Hobbema. Ends Jan 3.

Leiden, Rijksmuseum voor Oudheden. Manuscripts, books and maps spanning 1,000 years of scientific imagination and knowledge. Ends Jan 17.

MADRID

Fundacion Juan March. Mark Rothko 1903-1970 includes 54 works by North American artist of Russian origin grouped with de Kooning and Pollack. This show was seen recently at the Tate in London. Castello 77. Ends Jan 3.

NEW YORK

Metropolitan Museum. 200 objects from the Age of Sultan Suleyman the Magnificent demonstrate the wealth and skills at the high point of the Ottoman empire in the sixteenth century through the large selection of illuminated manuscripts, the imperial wardrobe, ceramics and jewel-encrusted weapons. Ends Jan 17.

Center for African Art. Angles on African Art features ten co-curators, ranging from an African tribesman to collector David Rockefeller, each of whom chose ten of their favourite pieces, making a well-rounded and diverse show. Other curators are writer James Baldwin, artists Nancy Graves and Romare Beurden and curator William Rubin. Ends Jan 3.

WASHINGTON

National Gallery. A Century of Modern Sculpture, the Patsy and Raymond Nasher Collection, contains major works by Rodin, Picasso, Matisse, Gabo, Giacometti, Ernst, Moore and Serra. Ends Jan 3.

TOKYO

Azabu Museum. Edo Pastimes. This exhibition of screens, scrolls and paintings with works by courtesans in the old Yoshiwara Pleasure Quarters of Edo (now Tokyo) evokes the colourful and lively leisure pursuits of an era when the Japanese were not obsesses with work. Ends Dec 25. Closed Mondays.

Music

TOKYO

NHK Symphony Orchestra (NHK Hall). Bertislav Klobucar conducts Beethoven 9th. (Mon-Thur) (465 1780, 464 4860).

Kodo (Theatre Apple, Shinjuku). Virtusoso drum ensemble which employs a wide range of traditional Japanese drums and has a repertoire ranging from folk music to the avant-garde. Ends Dec 27. (207 5588).

Yomiuri Symphony Orchestra (Tokyo Bunka Kaikan, Ueno). Rafael Fruhbeck de Burgos conducts, with Jane Mengedoht (soprano), Erwin Stephan (tenor), Ingeborg Russ (alto), Valdimir de Kanel (bass). Beethoven 9th (Wed). (720 6191).

Michiko Kobayashi (Tokyo Bunka Kaikan Recital Hall). Bach Goldberg Variations (harpsichord). (Thur) (501 5638-9).

Sawai Kazue's Eye to Eye (Sogetsu Hall, Aoyama). Modern music for koto, Japanese mandolin. (Thur) (461 3172).

PARIS

Lausanne Chamber Orchestra (TMP-Chatelet). Lawrence Foster condustcs, with Sorbonne's Paris University Choir conducted by Jacques Grimbert: Berlioz - L'Enfance du Christ (Mon). (42 33 44 44)

Soloists' Choir and Orchestra (Salle Pleyel). Hugues Reiner conducts Mozart and Bruckner (Mon). (45 63 07 96)

Paris Opera Orchestra with June Anderson and Alfredo Kraus (Paris Opera) conducted by Michelangelo Veltri. Duos from Lucia di Lammermoor, Lakme, Manon. Arias from Martha and Semiramis, Robert le Diable (Tue). (47 42 53 71)

Nouvel Orchestre Philharmonique de Radio France (Theatre des Champs Elysees) Marek Janowski conducts with Silvia Marcovici, piano: Tchaikovsky, Smetana, Saint-Saens, Respighi (Tue). (47 20 36 37)

NETHERLANDS

Amsterdam (Nieuwe Kerk, Dam Square). Bach's Christmas Oratorio with the Excelsior Choir and the Netherlands Philharmonic (Tue).

Utrecht (Vredenburg). Handel's Messiah with the choir of the Utrecht Oratorio Society and soloists conducted by Johan van der Camp (Tue). The choir and baroque orchestra of the Netherlands Bach Society conducted by Ton Koopman in a programme of Bach Christmas cantatas (Wed). Recital Hall: Electronic concert, with Kerstin Stahl, mezzo (Tue).(31 45 44)

Rotterdam (Doelen). Deo Cantemus with songs of praise (Tue, Wed). Recital Hall: Robert Holl, bass, accopanied by Oleg Maisenberg: Schumann (Tue). Bach cello recital by Heinrich Schiff (Wed). (413 24 90)

Arnhem (Musis Sacrum). The Netherlands Chamber Choir under Gustave Leonhardt, with Bob van Asperen, harpsichord: Sweelinck, Huygens, Verrijt, Hollander, Monteverdi (Mon). (51 61 91)

Nijmegen (Vereniging). Daniel Sergio Tiempo, piano: Beethoven, Schumahn, Chopin (Wed).(22 11 00)

NEW YORK

Orchestra of St Luke's (Carnegie Hall). Blanche Moyse conducting, Benita Valente soprano and the Blanche Moyse Chorale. Bach (Mon). (247 7800)

Julliard Concerts (IBM Gallery, 56th and Madison). Stuyvesant Brass Quintet. Bach, Ewald (Mon, 5); New York Chamber Orchestra. All-Bach programme (Tue, 5). Free.

Elizabeth Rich, piano, and Rolf Schulte, violin (Merkin Hall, Goodman House, 67th w of Broadway). All-Beethoven programme (Mon). (362 8719)

WASHINGTON

Choral Arts Society of Washington (Concert Hall). Christmas programme (Tue). Kennedy Center (254 3776)

ARTS

Cinema/Nigel Andrews

Oscar favourites paraded in Hollywood

There are two separate seasons of Oscar hysteria during the Hollywood year: March and December. March is the gaudier month, casting its statuettes before gladsome recipients and rejoicing in the illimitable wit and wisdom of their acceptance speeches. ("I could not have won this award without the help of So-and-so, So-and-so, So-and-so and So-and-so ....")

But far more intriguing for the film critic, indeed for anyone not seduced by prize-night pizzazz, is the Oscar time that comes in December. This is the month when the studios unleash their last major Academy Award contenders before the gong sounds on qualification at the year's end. In a Hollywood suddenly rampant with seasonal ingratiation, the studios take full-page *Variety* ads announcing special screenings of special films. These shows are aimed at Academy members and are identified in the advertisements by the words "For your consideration." This is polite Hollywoodspeak for, "We beg you to come to the screening, we will throw in any amount of food and drink, and if you vote for our film we will never, never, forget you."

This December, as I can testify having just returned hotfoot from Hollywood, it is the month of Spielberg's *Empire Of The Sun*, Bertolucci's *The Last Emperor* and Oliver Stone's *Wall Street* among the main movie properties geared towards the 1988 Oscars.

The likeliest vote-catcher at present is *Empire Of The Sun*. Spielberg's adaptation of J.G. Ballard's harrowing novel about P-o-W life in Occupied China during World War 2 is far better than one could have hoped, or feared. The boy-wonder director, who had manifest trouble coping with adult themes in *The Color Purple*, here has the gift of a boy hero (played by Christian Bale) and of a subject that allows his visionary surrealism to take wing. The child's-eye view of war is evoked in wondrous images: a crippled fighter-plane haloed by a shower of welding sparks, a Japanese army suddenly materialising in an "empty" airfield, a vast and ghostly stadium stacked high with shimmering war booty (from cocktail cabinets to captured limousines). And Bale as the boy gives the best child's performance – alert, funny, protean, touching – since Jean-Pierre Leaud in *Les Quatre Cent Coups*.

Ballard's novel has been cleaned up a touch: few of its ghastlier cruelties and none of its determined excremental realism survive. But surprisingly this proves a price worth paying for the Spielberg vision. This is a Boy's Own war which still has the power to shock. The barbarities are translated into dream, but the essential originality of the book's pessimism – that we can all, not least children, learn to live with war and even find a grisly sense of "belonging" in it – does survive.

Bertolucci's *The Last Emperor* crosses earlier patches of the same country's history, being the story of China's last imperial ruler Pu Yi. The chronicle is fascinating: a one-time infant ruler who was deposed by revolution and later drifted through history as a gardener, a soldier and even a bar room singer. The trouble with Bertolucci's movie is that it drifts similarly. Like opium smoke its gorgeous, narcotic images (golden costumes, Vittorio Storaro photography, a thousand extras) float on for 2½ hours, bewitching the senses and befuddling the mind. It is lovely: but where, one keeps wondering, is it all going? Rather than a voyage of discovery – into a man's soul and an epoch's character – the film seems too often like a journey of enchanted, mystic obfuscation.

No charges of mysticism could be aimed at the third of the Oscar-bidding movies I saw in Hollywood. *Wall Street* comes from the writer-director of *Platoon*, Oliver Stone, and tells us that the front-line of Western moral agony has now moved from Vietnam to the stock exchanges. Considering that Stone made the movie well before the recent crash, he deserves the 1987 Golden Tea-leaves Award for prognostication.

What he does not deserve, alas, is an Oscar. *Wall Street* begins at thumping pace, as Stone's Steadicam camera prowls the money-making labrynths, following hot-shot young stock-dealer Charlie Sheen as he bids first to join, then to beat, such high-rise rivals as corporate raider Michael Douglas (growling away just like father Kirk). But the movie no sooner hits its opening high than it falls back, due to heavy selling of moral messages (getting rich on the backs of others is bad) and to market interference from irrelevant characters (Darryl Hannah as Sheen's interior-decorator girlfriend). By the end, we realise that a sweetly-timed movie has failed to cash in on its topicality.

The redemptive irony, in any case, of Hollywood cinema each year is that its big Oscar favourites are often outshone by its despised commercial movies. The most enjoyable films I saw in my visit were two thrillers, both made in America by British directors: Ridley Scott's *Someone To Watch Over Me* and Adrian Lyne's *Fatal Attraction*.

Scott's film is a gilded fairy-tale with a black cutting-edge. A young New York policeman (Tom Berenger) is assigned to guard a beautiful millionairess (Mimi Rogers) who has witnessed a murder. Two questions harry us and them: will the cop fall in love with the woman and rupture his happy home life (wife and two kids in Brooklyn) and will the yet-uncaptured killer strike again? Scott takes a B-movie-ish tale and, as he did with *Alien* and *Blade Runner*, transforms it into haute-couture cinema: fabulously lit, laced with menace and shot with a soaring visual intelligence the cinema has scarcely seen since Von Sternberg.

Scott's film has been a fair-to-good performer at the box-office, but *Fatal Attraction* has been a phenomenon. It attracts block-circling queues, it has made 150 million dollars to date, and it has turned Lyne from a talented limey journeyman (he made *Flashdance* and *9½ Weeks*) into one of Hollywood's hottest directors.

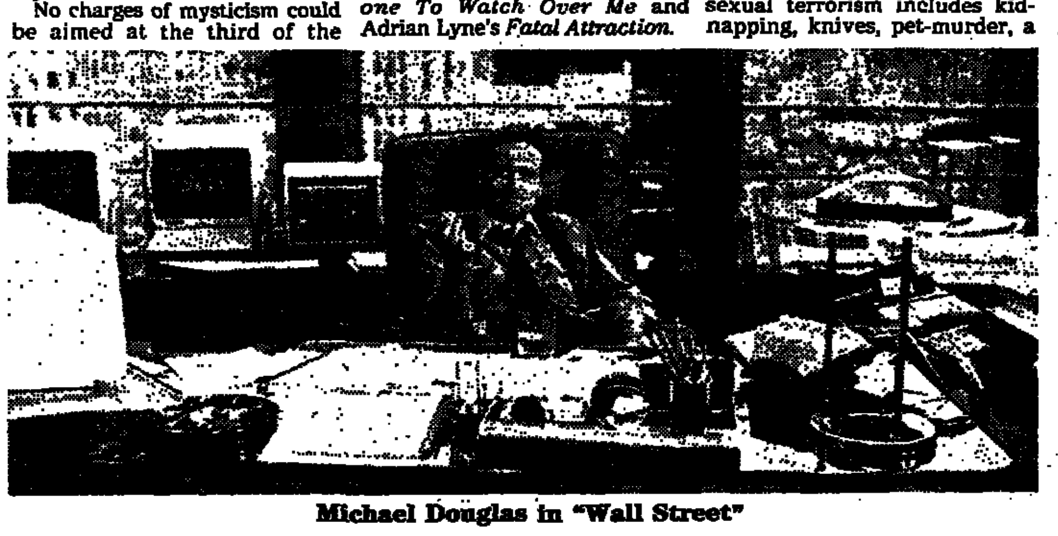
The movie – written, incidentally, by another Britisher, James Dearden – has a simple but humdinging plot. Married man Michael Douglas (pre-*Wall Street*) has a one-night fling with an unstable blonde lady (Glenn Close) and then finds that the blonde wants more. And she will got to any lengths, including violence, to get it. Soon the audience is clutching its popcorn as the weaponry of sexual terrorism includes kidnapping, knives, pet-murder, a fairground rollercoaster and any number of very nasty midnight phone-calls.

The film itself is a rollercoaster, guaranteed to give audiences a thrilling ride. High art it is not, but like much good low art it takes the pulse of an age. America is bursting with thrillers at present and a startling number of them are about sexual misadventure. Add to the movies by Scott and Lyne Peter Yates's *Suspect* (dalliance and worse from Supreme Court judge) and Roger Donaldson's *No Way Out* (sex scandal threatens Pentagon) and you might reach the conclusion that in the age of Aids America is flashing non-stop warning lights about promiscuity. Home, says Hollywood, may not be where the heart is, but it is most certainly where it *should* be.

In the performance stakes out Hollywood way, the two most determined Oscar contenders I saw were Barbra Streisand and Nick Nolte. Streisand flexes her star-quality adenoids and kooky-girl charisma in *Nuts*, the tale of a call-girl on a murder charge who refuses, despite counsel's advice, to plead insane. Richard Dreyfuss, Karl Malden, Maureen Stapleton and other bigwigs stand around while La Streisand, in and out of court, lets rip. She is hugely entertaining, but on this evidence I would probably have supported an insane verdict.

Nick Nolte brims with brio in *Weeds*, a film about prison life and after. His ex-convict turned actor-playwright tries to go not just straight but "legit" – as America calls straight theatre – and finds a hostile world baying with prejudice (including the New York Times critic). The film is patchy and prone to platitude, but Nolte is tremendous. Like a loose-lidded steam kettle, he bursts with emotions never quite released. And he captures the cabin-fever frustrations of a dreamer who finds elusive the freedom to dream even when the doors of captivity have swung wide open. Watch out for his name on Oscar night.

Back here on the home front, the pickings are less rich. But I shall be reviewing the Yuletide cornucopia – including Schwarzenegger in *Predator*, grizzly bears in *Bigfoot and the Hendersons* and many an all-star Brit in *Little Dorrit Part 2* – later.



Michael Douglas in "Wall Street"

Alastair Muir

Ethna Robinson and Cathryn Pope

Hansel and Gretel/Coliseum

Max Loppert

Humperdinck's opera, out of the repertory of English National Opera for far too long, has returned there at last – it opened on Wednesday in a gala performance (attended by the Princess Royal) in aid of Save The Children. The production (sponsored by Legal & General) has been devised for active service in the festive season. This it will do, capitally, for it is a show filled with theatrical and musical magic, enough to make the spirits of any even moderately opera-loving adult or child soar (*Hansel* is often, understandably but erroneously, considered purely a "children's opera").

But, far more than that, it is a production and a musical performance that work with quite wonderful richness on many levels beside that of excellent entertainment. I would say, indeed, that this must be counted one of the company's highest achievements in recent times – a big statement, given this particular company, but, I think, a just one.

In David Pountney's production and (very successful) new translation and Stefanos Lazaridis's designs, the opera undergoes a sea-change – at once recognizably, truthfully itself and miraculously transformed, faithful to the core of the work's substance and creatively unfaithful to its narrative surface. As in the same team's *Rusalka*, the picturesque trappings of nature, in particular the deep, dense primeval forest, have been shed in order that a "subtext" interpretation of the fable may be released simultaneously with the main text.

Without wanting to reveal in advance the surprises of the setting – for every point and corner of Mr Lazaridis's breathtakingly brilliant design are cherishable, and should be allowed to strike the audience with maximum freshness – one may reasonably state that scene and period have been transported from German country to English town, from fairy-tale never-never-land to the postwar era of rationing, public housing, and urban renewal. From Fair Isle pullover to gas meter the period detail is accurately placed, and serves, with quite extraordinary poetic imagination, theatrical dexterity, and unsentimental tenderness, to renew the "folk-myth" side of the fantasy for a modern London audience.

Mr Pountney's particular penchant for extracting Freudian insights from the operatic material under his hands may in advance have alarmed those members of the audience who feared a severe modern overhaul of a favourite work. But in manner and style, in pacing and placing of events, the balance of this Pountney production seems to me just about perfect (those parts of Wednesday's opening performance that went less than perfectly – the creaks and shudders of the splendid mobile house as it rose or fell into position – will no doubt be improved with practice).

As Michael Tanner's illuminating programme essay reminds us, the libretto tones down the violence of the Grimm tale, just as the music might be said to be, in Mr Tanner's happy phrase, "Wagner de-eroticised". In this *Hansel* the tone stays light. This may be a drama in which children ejected from their home and wandering a city heath by night perceive threats from unseen adults; in which a child's natural ambivalence about the mother-figure is given vivid realization; and in which the children finally released from servitude to the witch prove to have the all-too-familiar and painful tokens of violent abuse about their bodies.

But the frame of fairy-tale enchantment, of a performance that sweeps an audience up in wonder, holds absolutely firm. An operatic experience that manages to delight its audience and "say something" of real importance to them at the same time is a rare thing indeed.

The production, it must be emphasized, chimes with the music - with even closer sympathy, indeed, than that manifested by Pountney's *Rusalka* production did for Dvorak's music. The conductor is Mark Elder, all of whose greatest strengths as an opera-house musician can be engaged and enlisted on a late-Romantic score as rich, finely-worked, and substantial as Humperdinck's. A few first-night criticisms of minor importance may be gently offered (voices and words were sometimes covered, string tone was a bit patchy in places), but the overall impression was gloriously radiant – for the dream-close to Act 2, which producer and designer have re-worked as the tenderest and most lovingly poetic collation of 50s fantasy images, a very large handkerchief is recommended.

Too little space remains to do justice to the cast, for whose sharply observed, witty, freshly imagined characterizations a general bouquet of praise must serve. The Gretel of Cathryn Pope, whose soprano is filling out most beautifully, is perhaps the evening's star. Ethna Robinson's dreamy-eyed Hansel is charmingly played and expertly sung except for a touch of stridency at the top. Sandman (Susan Bullock) and Dew Fairy (Janis Kelly) – I shan't spoil the charm of their new guises by describing them – will make even more of their songs with practice; Norman Bailey's Father is already a rounded piece of work, voiced with all of this singer's special authority (it's entirely right, but still a marvellous bonus, that the house's most admired Sachs and Wotan should be in harness here).

The production's brightest stroke – it will no doubt acquire legendary status in time – is the assignment of a single singer to the roles of Mother and Witch. It has been tried before (by, for instance, Tom Hawkes for New Sadler's Wells Opera), but surely never before brought off with such a flourish of comedy, menace, and psyhcological insight: Mum, in hair net and slippers, is pure *Coronation Street* while the Witch divides her time between the worlds of Ealing comedy and Charles Adams. In Felicity Palmer's performance it is already a tour de force, and when the singer relaxes, smooths, and steadies her vocal line even more, it should provide a superb evening of ENO music-drama with its unforgettable central focus.

Between East and West/Hampstead

Michael Coveney

A Czech film director, Gregor Hasek, and his actress wife, Erna, fled the homeland when the former's house, also the subject of his film, was confiscated. The denounced artist has settled in New York in 1983. With his un-denounced wife. The TV news reminds us that Pershing missiles are being deployed in Europe and that there has just been a snap invasion of Granada.

Richard Nelson's play, which pre-dates his *Principia Scriptoriae*, the searing piece about imprisoned writers given by the RSC last year, is a clipped and poignant two-hander about the displaced artist. Mr Nelson is mining a rich vein in personal relationships subject to tangential political pressure. Last week, BBC Radio broadcast a tart and pertinent play of his, *Languages Spoken Here*, in which an oppressed Polish novelist toyed teasingly in Britain with his American translator.

Short scenes with ironic captions is the preferred form. Red neon-lit surtitles run across each little fight and compromise between Sheila Allen and John Woodvine. They play a marriage at crisis point with stealth and finesse.

Interestingly, the director, David Jones, who is married to Sheila Allen, has gone on the record with the play's genesis. It relates to his own "exile" in New York, where he went to run the Brooklyn Academy for three up-and-down years, poised between a distinguished RSC and film-making career and who knows what. Miss Allen went too, but with no professional incentive.

Mr Nelson was the director's literary manager. He obviously kept up with his Joneses. Gregor is touting for theatre work on his "foreign film-maker" reputation. He lands a job in Connecticut. Everything is geared to his professional acclimatisation. Erna did not leave home. Gregor did. She left with him. Miss Allen is heavy with longing and regret, her resentment boiling in a magnificent comic scene where she is put through her paces for a putative audition as Chekov's Olga.

Miss Allen is a radiant and elegant actress, and she says much with few words. Mr Woodvine is a perfect foil, brisk and desiccated, fussily clothed and neat in movement. He has tunnel vision, but is attractively susceptible to bright lights. He returns from a shopping expedition on Fifth Avenue where he has seen a millionaire enter the Plaza and a bum stand on the same corner. "I suppose that's democracy."

The chopped up construction necessitates many scene changes and encourages you to feel the play might be just as well served on radio. But the switches back and forth in time are cheerfully managed, and covered with plangent violin and piano music from East and West: Dvorak and Bartok, Schubert and Satie. The couple speak in perfect English to signify their native tongue, lapsing into bounced and broken Czech-English when answering the telephone or reading from the newspapers.

Gregor is given to violent fits of temper, which are then paraded as expressions of concern. Erna wilts, but knows her man. One scenic juxtaposition cunningly presents the same incident in the protagonists' contrasting memories of it. I would say that at such moments – which are too few – the technique is fully justified.

The actors are holding off too much at the moment. The air between us was stiff on the opening night. But the groundwork is sure. Eileen Diss has designed the one-room rented apartment on the Upper East Side with evocative tenement and skyscraper views to the side, cleverly lit by Mick Hughes.

And how, finally, does the Connecticut debut go? On the telephone to Prague, Gregor reports that the critics were unimpressed. His work was "too European." He no more knows what they mean than they did.

Cinderella/Covent Garden

Clement Crisp

The ballet-going public has a seemingly insatiable appetite for the pretty in stage design, and preferably the Victorian pretty. Chief purveyor of these dainties is David Walker, whose ventures in the field range from Festival Ballet's *La Sylphide* and *Giselle* to the Royal Ballet's *The Dream*. Mr Walker has also decorated the Royal Ballet's *Sleeping Beauty*, and has now also revised and reworked his sets and costumes for the company's *Cinderella*.

Unveiled at a Royal Gala in aid of the British Lung Foundation on Wednesday night, these new decorations are quite astoundingly pretty, and indeed, if they were any prettier, I can imagine a light nausea and palpitations might ensue. Sequins, feathery brushwork, shafts of light, velvet costumes and false perspective are the order of the day. In moderation these are the stuff of theatrical magic; carried to the excesses of fabric, flummery and claustrophobic quaintness that are here on view, they engender in me longings for white on white and fresh air. The worst of the evening is the ballroom set, a rigid toy-theatre exercise in pink pillars, candelabra and cardboard swagging, filled with courtiers heavily outfitted in matching mauve and red.

At his best Mr Walker can do enchanting things: the Season Fairies and their settings are bewitching. But for too much of the ballet, extravagance seems no substitute for style, and the eye is quickly sated.

The return of *Cinderella* to the repertory has also brought some fresh casting. Gone are the days when the original Ugly Sisters stole the scene and our hearts. The new incumbents – Derek Deane as the bossier of the pair, David Bintley as the shy mouse – at present play their roles with comic discretion, and very welcome too. Both will find more humour in the characters, though I hope that it will not be of the flaring variety. The weight of our attention thus falls on Cinderella and her Prince, Maria Almeida and Jonathan Cope. They do very decently by the dancing – the staging has been much cleaned as to the outlines of the choreography – and cheat us of nothing save the feeling that romance has them in thrall and that they will live happily ever after. I hope they will learn to give themselves to the story and, believing in it, will make us believe, too. About the beautiful group of stars, whose choreography is surely some of the loveliest every given to a corps de ballet, about the score and other performances I shall hope to comment later.

LPO/Festival Hall

Dominic Gill

Kurt Masur's enterprising programme with the London Philharmonic on Wednesday included a sparkling account of Kodaly's *Hary Janos* suite, and an unusual confection arranged especially for concert performance by Masur himself (collaborating with Freidhelm Eberle) of a selection from Grieg's incidental music to *Peer Gynt*.

Masur is one of the conductors for whom the LPO play like angels. How much even the plainest Kodaly paragraphs gain from sensitive shaping and pacing! *Hary Janos* can hardly be counted among the great (or even among the greater) Hungarian orchestral works of the century: but Masur drove the music forward with an energy, and a vigorous skill, that quite belied its earnest, provincial stature.

His selection from *Peer Gynt* was an odd, fragmented sequence, part vocal and orchestral, part melodramatic, underpinned by a spoken narration – but it proved effective enough, and as a musical entertainment had some deft and charming scenes. The two orchestral suites (especially the first) which Grieg drew from his full score of 24 numbers for Ibsen's play are familiar enough in the concert hall, and they really do contain most of the best music. Masur's conflation of 15 numbers was not therefore by itself any kind of revelation: good-natured hommage rather, well worth the hearing. The highest point was certainly the exquisite singing of Solveig's Air by Edith Wiens, beautifully clean and snowy of timbre; and her delivery of the final lullaby was a paradigm of delicacy and tact. Michael Jayston's narration sustained just the right tone, nicely balanced between sentiment and sentimentality.

Arts Guide

December 18-24

Opera and ballet

LONDON

Royal Opera (Covent Garden). The company's festive season show is a revival of L'Elisir d'Amore, with Yvonne Kenny and Gino Quilico, conductor Gabriele Ferro.

English National Opera (Coliseum). The much awaited production by David Pountney of Humperdinck's Hansel and Gretel is conducted by Mark Elder.

PARIS

Lyons Opera Ballet and Magay Marin's company (Theatre de la Ville). The Seven Deadly Sins in Berthold Brecht's and Kurt Weill's Black Universe Searching for Peace. (42 74 22 77).

Rudolf Nureyev's production of Tchaikovsky's Nutcracker (Paris Opera). The choreography reveals childhood's fantasies as well as fears beneath the usually sugar-coated fairy tale. (47 42 57 50)

WEST GERMANY

Berlin (Deutsche Oper). Der Freischuetz, produced by Johannes Schaaf, will have its premiere this week. The cast incudes Stella Kleindienst.

Hamburg (Staatsoper). La Clemenza di Tito has a strong cast with Judith Beckmann, Hildegard Hartwig, Werner Hollweg and Harald Stamm.

Cologne (Opera). Hansel und Gretel has Andrea Andonian and Teresa Ringholz in the main parts, Hellen Kwon repeats her much praised Queen of the Night in the Magic Flute.

Frankfurt (Opera). Falstaff is steered to triumph by Luis Quilico, brilliant in the title role. Cosi Fan Tutte with a new cast led by Margaret Marshall.

Munich (Bayerische Staatsoper). La Forza del Destino is Gotz Friedrich's production brings Julia Varady, Judith Forst and Wolfgang Brendel together. Die Frau ohne Schatten stars Mechtild Gessendorf.

ITALY

Milan (Teatro alla Scala). Impressive but lugubrious production of Don Giovanni by Giorgio Strehler, performed in the semi-darkness of Ezio Frigerio's tasteful sets. Riccardo Muti conducts a fine cast. (80 91 26)

Rome (Teatro dell'Opera). Faust directed by Luca Bonconi and conducted by Gianfranco Masini with scenery and costumes by Pierluigi Pizzi. Also, Alicia Alonso's Ballet Nacional de Cuba. (46 17 55).

Turin (Teatro Regio). Quartetto con Maschera Rossa. A new ballet by Jean-Luc Lequay, with scenery and costumes by Eugenio Guglielminetti, danced by the Regio Company, with five guest performers. (58 80 00).

Bologna (Teatro Communale). Falstaff in co-production with the Teatre de la Monnaie in Brussels, conducted by Riccardo Chailly. (52 99 99)

NEW YORK

Metropolitan Opera (Opera House). Les Contes d'Hoffman, in Otto Schenk's production conducted by Charles Dutoit, features Gwendolyn Bradley and James Morris. Manuel Rosenthal conducts Die Fledermaus in Otto Schenk's production, with Barbara Daniels and David Rendall. Fabrizio Melano's new production of Il Trovatore is conducted by Richard Bonynge, with Joan Sutherland and Luciano Pavarotti. Franco Zeffirelli's production of Tosca is conducted by Christian Badea with Eva Marton and Italo Tajo. Lincoln Center (362 6000)

New York City Ballet (New York State Theatre). Two choreographers with their own companies, Alwin Nikolais and Murray Louis, team up for a five-week season featuring seven programmes, including a number of premieres. Ends Jan 17.

WASHINGTON

Washington Opera (Eisenhower). The season continues with the little performed L'Amico Fritz by Mascagni in repertory with Ruddigore. Kennedy Center (254 3670)

Saleroom season ends

The salerooms seem to have shaken off the stock exchange crash fairly well to date. At the end of the autumn season Christie's had achieved a worldwide turnover of £245m, 26 per cent up on a year ago. Since mid October it had disposed of thirty six works of art for over $1m. Prospects for 1988 are bright, with more property consigned than at the start of 1987. Despite selling Van Gogh's "Irises" for £30m Sotheby's managed a much smaller rise, less than 3 per cent higher in sterling terms, at £340m. However, quoting in dollars Sotheby's can claim a 30 per cent rise to $609.4m.

Phillips reported year end figures yesterday. In 1987 its turnover rose 23 per cent to £77.7m. In its annual poll of its specialists for the "best buy" for 1988 fine English furniture came top, as usual.

A.T.

Arts Council undecided over grants

The Arts Council has still not made up its mind how to distribute the £5.75m in additional grant that it received from the Arts Minister, Mr Richard Luce, in order to create incentive funding schemes in the UK in 1988-89. The actual split of the money is not settled but £3.5m is likely to go to the Enterprise Fund for large organisations, and the Progress Fund for smaller arts groups, with £1.5m to subsidise touring by national companies, and the rest on overseas touring.

But it seems there will be no financial division between the Enterprise and Progress Funds and there might even be a third grouping, for the very tiny arts groups, in which aid will be £10,000 or less. It is likely that successful applicants will get £1 for every £2 they raise themselves, up to a tentative ceiling of £250,000. But really nothing has been decided.

The Arts Council is reluctant to give these resources to management consultants and it could well devise a pilot scheme to act as an example to applicants. The Progress Fund will concentrate on professional assistance to fledgling or experimental arts organisations while the Enterprise Fund will relate to proven artistic merit, plus evidence that the extra money will improve performance, and contribute to an increase in funding from the private sector.

The Arts Council will have £120.7m to distribute in England as its basic grant in 1988-89 and there will be no across the board percentage rise. Arts groups can expect to receive varying grant increases, or none at all, plus any additional from the incentive funding scheme.

FINANCIAL TIMES

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Transition to democracy

A GOOD deal of agitated hand-wringing is under way among the opposition parties in South Korea today. By competing against each other instead of against the government party they have lost the election for which they have been campaigning ceaselessly for 16 years.

There have been charges of blatant ballot-rigging. It will be some time before the scale of interference becomes clear. However, it is doubtful whether ballot rigging could account for the 2m votes margin of Mr Roh Tae Woo's win for the ruling Democratic Justice Party. Equally clearly, if either Mr Kim Dae Jung or Mr Kim Young Sam, the two leading opposition candidates, had kept to their earlier pledge and pooled resources, one of them could have secured a very handsome majority over Mr Roh on yesterday's result.

The next few days will be watched anxiously not only by South Koreans but also by the numerous other nation states trying to make the tricky transition from authoritarian rule to pluralist democracy. The US, which has invested much in nudging the South Koreans back to the democratic fold, will be observing developments closely. All the political leaders have key roles to play. If they continue to focus on the principles underpinning democracy the outlook for political and social stability in South Korea looks good. The precondition will be common acceptance of whatever is ultimately deemed to be the fair result.

Delicate manoeuvre

Nothing could be worse than for Mr Roh's party to be proved to have been foolish enough to have manipulated the result after all the country has gone through to rid itself of authoritarian rule. If this were to happen and the opposition leaders called strikes and demonstrations resulting in social upheaval, there is no doubt that the military would intervene again, negating all the progress that has been made.

If, on the other hand, the irregularities turn out to be marginal Mr Roh's victory should be accepted. His first priority will be to ensure the divorce of the army from the affairs of state. This will be his most delicate manoeuvre; he was associated with the coup which brought President Chun Doo Hwan to power in 1980 and has been implicated in some of that regime's worst excesses. His conversion to a different style was late. It need be no less genuine for that. He has some impressive changes to his credit already, having overseen the drafting of a new constituion which is commendably bipartisan in its approach. As in the US, the president's paramount power will be heavily circumscribed by the powers of the national assembly.

Few people have sacrificed as much in the cause of South Korean democracy as the two main losers in this election. Only they, by applying their beliefs to the role of an opposition in a democracy, can now still their supporters into calm acceptance of the result if it is shown to be reasonable.

Political continuity

The transition to a democracy begins rather than ends with a free election. The next few years will be awkward as the fledgling institutions proceed through teething troubles and adolescence to maturity. A great strength will be the growing power of the economy and the united commitment of the people to maintaining and increasing their prosperity. All South Koreans surely know that one of the most glittering economic success stories of the last 20 years owes much more to the sweat of their brows than to any benefit derived from a tightly controlled repressive regime.

The move towards a less dirigiste system of economic planning was already under way before the surge towards democracy, so policy continuity looks likely. There are no grounds for supposing that democratic institutions will undermine economic progress; on the contrary they will be more appropriate to an increasingly sophisticated economy.

Progress in this direction needs to be accompanied by the dismantling of South Korea's exceptionally restrictive trade practices, which are the subject of increasing international irritation, particularly in Washington. The more secure democracy looks in South Korea the stronger the international push will be to open the door to the country's markets.

Plan for freer trade in services

THERE could scarcely be a greater contrast between the European Community proposals for liberalisation of trade in services, tabled last week for consideration in the Uruguay round of multilateral trade negotiations, and those launched earlier this autumn by the US.

The EC proposals are low-key and workmanlike, concentrating on the need to establish procedures through which barriers to international trade in services can be negotiated away. The US takes a more idealistic approach, calling on the international community to adopt from the outset certain key liberalising principles from which, though the practicalities are left largely unexplained, it assumes specific agreements for individual service sectors will follow.

Given the complexities involved in liberalising trade in services, the EC approach is likely to be more productive but the EC might also be accused of harping on practical difficulties to ensure slow progress in practice.

The US proposal, to which the EC is replying, is widely regarded as over-ambitious. It calls on national governments to make a commitment to two controversial principles: the right of establishment and national treatment. In other words, signatories of the agreement would not only have to accommodate any foreign service industry that comes knocking at the door, regardless of normal constraints on investment flows and labour mobility, but would also have to treat foreign suppliers in the same way as domestic suppliers.

Central proposal

The EC is more modest. It is not seeking sweeping and immediate reform. Instead, the objective of the talks should be simply to promote expansion of trade in services and thereby economic growth.

The US concept of right of establishment is scarcely mentioned. Instead, the central proposal is an administrative one – the establishment of a "regulations committee" to which countries would notify perceived obstacles to market access for their own service suppliers as well as those regulations of their own that they judge "appropriate." The committee would then examine the notified regulations to determine whether they are in keeping with agreed criteria for market liberalisation. Regulations deemed "inappropriate" would be subject to negotiation aimed at their modification or elimination.

This process is one that would respect the desire of governments to regulate their service industries for reasons unconnected with trade but it has the disadvantage of rendering key concepts like national treatment and non-discrimination the starting point for a negotiation.

Making national treatment the ultimate objective rather than the starting-point of a negotiation is probably no more than a concession to realism. On non-discrimination, however, the EC's attitude is confusing. Its proposal appears to make discriminatory regulations just another basis for negotiation, but this goes with a difficult-to-understand caveat that the negotiations should be on a non-discriminatory basis.

Poorer deadlines

Treating non-discrimination as just a desirable end-point is understandable, since it is difficult to persuade countries to give equally liberal treatment to countries that protect themselves to differing extents. Nevertheless, in the absence of a strong non-discrimination principle, smaller countries are unlikely to be prepared to participate at all in the negotiations.

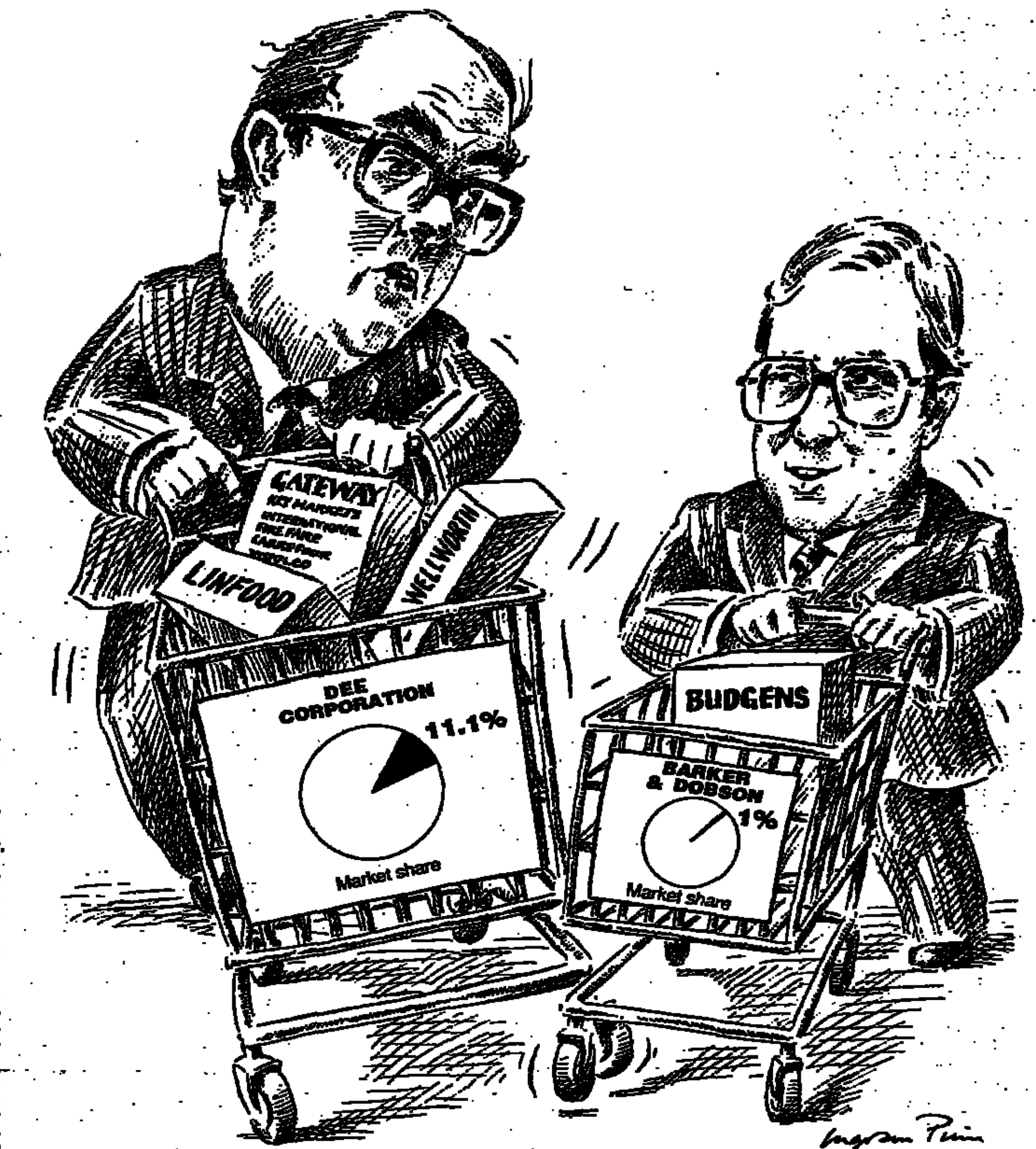
For example, in the absence of such a principle the US might still be within its rights in pressing South Korea to open its insurance market to US companies. The EC's clout may ensure that its companies are granted similar concessions. But other countries, with less negotiating leverage, could well be left out in the cold.

Elsewhere, the EC points to a need for liberalisation of trade in services to be compatible with the development aspirations of poorer countries. This is bound to be controversial, since it will be thought by some to let developing countries off the liberalisation hook, just as happened with trade in goods under the Gatt. An agreement that requires non-discriminatory treatment of countries accepting very different obligations has proved increasingly unworkable.

The framework agreement on services has to be more than a declaration of principle without procedures, on the lines of the US proposal, and more than procedures without principles, as is implicit in the low-keyed EC approach but the US and EC have made an interesting start and may even have the makings of one good proposal between them.

Yesterday's bid by Barker and Dobson for Dee Corporation highlights the battle for position between Britain's supermarkets

High noon on the high streets



THIS COULD BE one of the last big battles in Britain's food retailing industry. The bid by Barker & Dobson, a company which until recently had been on the ropes for longer than most people can remember, for the much bigger Dee Corporation is remarkable not just as a David and Goliath story, or as an extraordinary piece of financial engineering.

It also marks the latest – and the biggest – in a whole series of transactions in which the ownership of UK supermarket groups has changed and changed again. Dee Corporation itself has been put together within the last 10 years through a series of major takeovers and the paths of several of the key players in the coming struggle have crossed before. With the exception of J. Sainsbury, all the major food retailers have been bidding for their high street rivals in the recent past, to the point where any further consolidation could fall foul of the Monopolies Commission.

What seems to be happening is that an industry which grew for 20 years and more at the expense of independent retailers is now approaching maturity and the battle is on to build market share.

Since the UK population is static and people are spending less rather than more on food, there is little in the way of market growth for the companies to fight for. Selling customers steak instead of sausages is one way to increase margins, but for profits to carry on upwards another means of expansion is necessary.

With the independents filling an ever smaller share of the nation's food basket, the multiples are coming up against each other in their fight for position – and they provide much tougher competition for each other.

According to estimates by Verdict Research, the retail market research firm, the top four food retailers – Tesco, Sainsbury, Dee and Argyll (following its recent acquisition of Safeway from its US parent) – now have virtually 50 per cent of the market. Estimates by others are even higher.

While Dee is reckoned to have about 11.1 per cent of the grocery market by Verdict and 13 per cent by others, Barker & Dobson's grocery chain Budgen has only around 1 per cent nationally, with up to 4 per cent in its strongest areas.

Some analysts believe that market saturation – the moment when the multiples can no longer expand merely by opening new stores – may now only be three or four years away. As Mr Paul Smiddy of brokers Wood Mackenzie observes: "Everyone is increasing their opening programmes as fast as possible before the roundabout stops."

That is more likely to take the form of a gradual deceleration than a juddering halt. Stores will continue to be revamped and old ones replaced with new. But competition between the majors is likely to be much more intense.

This is one reason why supermarket groups are looking to diversify overseas. Examples include Dee's purchase of Herman's Sporting Goods in the US in April 1986, and Sainsbury's creeping acquisition of Shaw's supermarket group, also in the US.

The scope for expansion by acquisition on the home front is becoming much more limited. Although none of the chains have more than 20 per cent of the total market, most are strong in particular regions. In London, Sainsbury and Tesco have more than half the market between them. The Monopolies Commission has already shown considerable interest in a number of bids in the sector.

It is poetic justice that Dee, which has so often bid for others, is now under threat. Mr Alec Monk, its chairman and chief executive, was until recently one of the stars of Britain's food retailing scene. The inbred nature of the industry is such that all the players in this battle have come up against each other before. In addition, the presence of Mr James Gulliver, retiring next year as chairman of Argyll, has never been far away.

Dee's roots go back to the merger of Associated Food Holdings and Thomas Linnell to produce Linfood in 1974. Wheatsheaf, acquired in 1978, brought in the Carrefour hypermarkets. Mr Monk arrived from RTZ in 1981.

Only a few weeks later, Mr Gulliver bid £87m for the company, an offer which lapsed after it was referred to the Monopolies Commission.

The next year, Linfood in turn launched a bid for Fitch Lovell which was also referred. Fitch agreed to sell its Key Markets supermarkets to Safeway, but Linfood's bid was cleared and it finally bought Key Markets in 1983. The same year its name was changed to Dee.

Along the way, Dee has taken over International Stores and Lennons. It bid for Booker McConnell – Budgen's owner prior to Barker & Dobson – only to spend yet more time with the Monopolies Commission. Dee then picked up various interests outside UK food retailing and finally acquired Fine Fare from Associated British Foods in 1986.

It was this last bold move, on top of the purchase of Herman's two months earlier, that has now laid Dee open to a takeover bid. Fine Fare – once under the management of James Gulliver – had become decidely tired. The scale of the task of integrating Fine Fare and Dee's Gateway chain was enormous by any standard, and one Mr Monk expected to take three years.

With only half of that time up, Dee's interim results, announced on December 8, showed a downturn in profits. Bid speculation began to mount: Mr Monk described it as "codswallop" and felt confident to fly to the US this week. Barker & Dobson's Mr John Fletcher, who had already been looking at Dee, struck.

Mr Fletcher, now 45, can claim longer experience in food retailing than Mr Monk. He worked under Mr Gulliver at Oriel Foods in 1975, and stayed on to become president and chief executive

When Mr Gulliver bought Oriel back in 1980, Mr Fletcher was invited to join Asda, the northern-based superstores group. But after three years as managing director of the stores side, he left suddenly in 1984.

Yet Mr Fletcher's determination to get back on top of a major food retailing chain has since then led him to make a consortium bid both for Cullen's, the convenience store chain, and ambitiously for Fine Fare itself.

Both attempts failed. Instead Mr Fletcher joined Barker & Dobson in 1985, then a loss-making lozenge manufacturer and confectionery retailer, and has spent the time trying to prove his point.

By dint of some financial wizardry, summoning cash from shareholders through two heavy rights issues, Barker & Dobson bought first the Keiller marmalade business and then, in July 1986, Budgen. Like this bid for Dee, Barker & Dobson was by far the smaller business – though Booker readily accepted the offer.

Like Fine Fare, though perhaps not to the same extent, Budgen had suffered in the ownership of a food manufacturer. In his own opinion as well as others', Mr Fletcher has made a better job of revamping Budgen than Dee has with Fine Fare. He said yesterday of their different campaigns: "Just because a business is 10 times as big, it doesn't take 10 times as long."

Maggie Urry

A bid financed by banks

EVERY CORPORATE financier's heart must have fluttered a little at the sight of yesterday's £2bn bid for Dee Corporation.

Cheeky takeovers by small companies for large, usually ailing, giants were widely viewed as a bull market phenomenon. Yesterday, however, it became clear that big ambitions have not been entirely crushed by the stockmarket's autumn nose-dive.

Barker & Dobson is certainly nothing if not bold. A deal of this type, with over £1.5bn of syndicated bank debt, has not appeared on the UK bid scene since the offer from Elders IXL for Allied-Lyons in 1985. In that case – the first major highly-leveraged deal in the UK – the financing arrangements caused a Monopolies Commission reference, although the deal was subsequently cleared. Citicorp was the lead bank behind the Elders package and is again a key player in yesterday's financing.

A similar story might have cropped up in September, had the property group Mountleigh gone ahead with its bid plans for the retail group, Storehouse, and utilised the finance lined up by Shearson Lehman, another Wall Street firm. In the event, however, Storehouse's refusal to recommend any deal led Mountleigh to back off. Even Mountleigh was not contemplating such a deal in a climate of financial shock when markets are still far from stable.

The actual mechanics of the Barker & Dobson financing are relatively straightforward. The offer values the larger retail group at just under £2bn, of which £1.25bn will be satisfied in cash provided by a seven-strong syndicate of banks. The rest of the bid package consists of the issue of new shares, almost five and a half times the number currently in issue.

Why are the banks prepared to commit themselves on such a scale to such a small company? In part, the explanation derives from the increased willingness of banks, especially from the US, to commit capital in support of takeover transactions. In addition, it is clear that Barker is expecting to raise money from asset sales if it succeeds with its offer.

In the same way, Elders would have broken up Allied-Lyons had its gone ahead with its bid, and thus reduced its high borrowings.

Barker's intention is to hang on to Dee's "middle ground" Gateway stores – leaving it free to dispose of the 76 superstores within Gateway, Herman's in the US, the Linfood cash and carry business, the Medicare drugstores and the Spanish retail business.

According to Barker, no buyers have yet been lined up. Its only clue to the expected proceeds is an indication that the cash raised would roughly match the bank loans (excluding the working capital element).

Wood Mackenzie, for example, reckons that some £1.06bn might be pulled in, with the UK superstores contributing anything between £500m and £700m. Quite how quickly the sale of Herman's could proceed in the current difficult climate is uncertain. Yesterday, though, Barker's Mr Fletcher was stressing sales would not be essential merely to service the debt and that his company did have some leeway thanks to the length of the loans.

The bid has some parallels with other David and Goliath deals earlier this year, such as the takeovers by WPP, the marketing services group of US-based JWT, Blue Arrow for Manpower, and FKI Electricals for Babcock International.

Although Barker and its advisers concede that the deal has been under consideration "in an on-off process" for many months, they maintain that a firm financing shape was not decided ahead of the market maelstrom.

Some concessions to the changed climate are obvious. First, the bid itself offers a high cash element for Dee shareholders, something which obviously has appeal to those institutions which are still trying to reduce the equity portion of their portfolios. That was also a feature of the WPP/Blue Arrow/FKI bids: the first two were cash-only deals and FKI tagged on a full cash alternative which was widely taken up.

But to provide that cash, those companies had to sell large amounts of their shares – a trick which was much easier to pull off in a roaring bull market. So the real difference about yesterday's offer is that the hefty loan element dodges the problem of underwriting new shares, replacing any element of rights issue by straight debt funding. It was, after all, the inability to underwrite in the shaky market conditions which brought bid activity temporarily to a halt in late October.

Yesterday, no one was predicting that the Barker deal would mark an important new trend in bid financing. But it does seem that bank finance, as well as flush corporate coffers, may have a larger role to play in the post crash world

Nikki Tait

Men and Matters

France invests in busy lines

The French telecommunications authority clearly is not a superstitious organisation.

After more than a year of soul-searching and market studies, the Direction Generale des Telecommunications, as the state telecommunications agency is known, has opted for a new name which has a most familiar Anglo-Saxon style.

In an effort to give itself a flashy new image, the DGT has decided to change its name to France Telecom.

But the French telecommunications people do not intend that France Telecom should turn out to be a Gallic version of British Telecom." Perish the thought", you can almost hear them thinking.

For a start, there is no question of privatisation. Even the French government's much talked-about telecommunications deregulation bill has now been shelved indefinitely.

After being regarded as one of the worst telephone systems in Europe in the Sixties, the French network has been improved dramatically and is now one of the most efficient and sophisticated in the world.

The new name, and an associated £2.5m advertising campaign, are intended to turn the spotlight on France Telecom's role as the country's "national public telephone operator", offering not only plain old telephone services but a wide range of new services using television and space satellites.

The new name, which is far less of a mouthful than the old one, is also designed to put an end to the traditional confusion between post and telecommunications services in France.

Next dance

Now that he has his autobiography Still Dancing on the bookstalls Lord Lew Grade, aged 81, is planning to return to film production in a big way.

Grade, whose film-making ambitions, many might have thought, went down with Raise The Titanic, is talking about a new £100m movie deal.

"I do have plans to go back into the movie business," he said at his annual Christmas lunch in London yesterday. "Hopefully by the end of January I will know whether my ambitions are fulfilled or not".

Pressed after the apple crumble, Grade, who said he "wasn't doing much these days" admitted he was at work developing a series of feature film ideas, and was waiting for the go-ahead on a transatlantic partnership.

"Next year I'll be 82 so you'd better be here", he added before sitting down to concentrate fully again on his enormous cigar.

Inky tricks

Claims of election fraud took an unusual turn in South Korea this week when voters went to the polling booth for the first democratic election in 16 years.

Apart from awkward charges about rigged boxes and extra ballot papers, opposition parties complained that some election officials were giving voters pens with special fading ink to mark their papers.

Non-drying ink was also spotted, they said. When the ballot paper was folded, the ink imprinted on a second choice, thus invalidating the ballot.

CBI signal

Those who follow the labyrinthine workings of the Confederation of British Industry are interpreting a signal flying from the Centre Point yardarm as evidence that policy is shifting radically under the new director-general John Banham.

Keith McDowall, aged 58, the deputy director general responsible for the CBI's lobbying and publicity operations for the last seven years is to leave at the end of January.

When McDowall joined the CBI the then director-general, Sir Terence Beckett, was shaping up to the Conservative government in spirited style. He had just pugnaciously made his point with his "bare knuckles" speech.

Beckett and McDowall campaigned together against the National Insurance Surcharge (which they cheekily dubbed "the Jobs Tax", to the government's fury), and against industrial electricity charges, and road transport policies affecting industry.

In contrast Banham, a former management consultant, and wily in the ways of the Whitehall machine after his time at the National Audit Office, is disposed to see British industrialists living comfortably - indeed, happily - with the present government. Although he has taken a strongly critical line over the poll tax.

McDowall is being given full credit by Banham for developing and honing during his time the best publicity and communications services the CBI has ever had. It will retain him as a consultant when he sets up his own business in public affairs and parliamentary liaison.

Dear departed

When part of the Co-op's Scottish funerals business goes under the hammer shortly (around £6m for openers) the principal but most cheerful mourners will be Tim Seymour and David Lyons of Gilbert Eliott Corporate Finance.

This will be the third time in three years that the pair have been involved in handling this particular business.

It all began in 1985 when they persuaded the House of Fraser to act as White Knight in the bid defence for funerals directors Ingall Industries. The following year they acted for the Co-op in buying the whole of House of Fraser's Scottish funerals business. Seymour admits it will be a sentimental parting - like losing an old friend.

Liverpool sports

The announcement yesterday of leisure, sports and retail projects costing £26m for the Liverpool docklands was interesting for what was not said.

There was silence from Raymund Doyle of Arena Associates about the bureaucratic quadrille involved in getting an urban development grant for the international ice stadium which is to be built.

Having secured £2.3m of aid Doyle evidently felt that discretion was better than complaining. But he did offer some new definitions born out of the frustrations experienced in 41 months of negotiations with the Merseyside Development Corporation and the Government.

A "project learning curve", he explained, was something to do with physical characteristics of secretaries. "Cementing the foundations" was burying the chief executive. And the "grants process" was a re-enactment of the Battle of Waterloo.

Phillip Carter, who is chairman of Everton football club, the Football League, and Liverpool Conservative Association, is to be the new chairman of the development corporation

His appointment completes a sporting monopoly. The MDC's deputy chairman is John Smith, chairman of Liverpool FC and the Sports Council.

Men only

Katie Chapman, assistant buyer for a Manchester engineering company, was delighted when two gift-wrapped Christmas presents arrived addressed to the Assistant Buyer.

She was not so pleased when she opened them to find a girlie calendar and a bottle of after-shave lotion.

Male chauvinists still rule in industry it seems.

Observer

POLITICS TODAY

Time, chance and Mrs Thatcher

By Malcolm Rutherford

LORD CALLAGHAN of Cardiff called his political memoirs Time and Chance. His text was from Ecclesiastes: "The race is not to the swift, nor the battle to the strong ... time and chance happeneth to them all."

The experience of writing Politics Today for the last 10 years or so does not entirely bear him out. One day perhaps Ecclesiastes will be shown to be right, but in the short to medium term it is an outside bet.

The beguiling question, it seems to me as I write my last article in this space, is whether the British Conservatives will become like the Liberal Democratic Party in Japan, which appears to rule for ever, or more like the Gaullists in France, who began to crumble after President de Gaulle had gone?

There is no way of answering it now, except to predict that in the not too distant future the Conservative Party will be in a state of internal crisis. The controversial domestic legislation – the poll tax and the Education Bill – will be through Parliament probably by next summer and the Government will be wondering what to do next. The Conservative Manifesto at the last general election essentially covered only a two-year period, and that was deliberate.

Above all, the party will be wondering about the future of Margaret Thatcher. The only British Prime Minister to give up the office voluntarily this century was Harold Wilson. All the others were overtaken either by illness or defeat. Will Mrs Thatcher decide to quit while the going is good, or attempt to defy the odds of time and chance by sticking out for another term?

The dilemma, not only for the Prime Minister but also for her party, is all the more difficult to resolve because there is still no obvious successor in sight.

When I was thinking about this article at the beginning of the week, Lord Whitelaw, the deputy Prime Minister and leader of the House of Lords, was intended to play a central part in it. The thesis, largely taken from him, was that he had agreed not to retire after the last general election because the Lords needed a leader with experience of the House of Commons – one generally respected by peers and non-peers alike, who could steer controversial legislation through an upper chamber that was in danger of becoming unruly. He would allow judicious amendments all the way, as was his wont, but under his stewardship the end result would be just about all right on the night.

The other reason he chose to stay was that he had long been anxious to preside over the period when the party would seek its next leader. He wanted the succession to be smooth and the new leader to emerge almost by the old "customary processes of consultation", rather than by the system of election by the parliamentary party with which the Tories are now saddled.

Lord Whitelaw knows as much about the new system as anyone because, if he had stood against Mr Edward Heath in the first ballot in 1975, he would almost

The Conservatives' inherent problems may surface sooner than anticipated

certainly have become leader. He did not do so out of loyalty to Mr Heath: Mrs Thatcher did, and won. Since then Lord Whitelaw has shown extraordinary, and not always reciprocated, loyalty to her.

He has also contributed to her occasional ruthlessness. It was he who urged the removal of Leon Brittan from the Home Office in 1985 on the grounds that the Government could not afford to have two senior ministers who were bad on television: Mr Brittan and Chancellor Nigel Lawson. It was easier to move the Home Secretary because to have replaced the Chancellor could have given a wrong economic signal.

More recently he was responsible for the removal of Lord Havers from the Lord Chancellorship, though why Lord Havers should have been appointed only to be sacked a few weeks later suggests, not for the first time, that there is something seriously wrong with the business of Cabinet-making.

Lord Whitelaw has become the foremost exponent of the doctrine that a Government must take its most unpopular measures very early on in order to have time to live them down. He learnt that from his experience with Mr Heath, who reversed his policies in mid-term and lost. Lord Whitelaw was also once Chief Whip – not a job for softies.

What I was going to write, before being sadly interrupted by his illness, was that Lord Whitelaw himself might be out by next autumn, either because the strain of leading their tempestuous lordships had told or because Mrs Thatcher had found a suitable replacement for him, such as Sir Geoffrey Howe, the Foreign Secretary; or perhaps a mixture of both reasons.

Sir Geoffrey's letter to his constituents published on Sunday – he usually makes a grave speech around this time of year to one of the older universities – was almost prophetic. It said, in effect, that he did not want to go to the House of Lords and was still very much a contender for the succession.

One of the most striking of many striking sentences was: "The future of Britain is a Conservative future, based on a Conservative agenda devised over more than two decades." It is hard to imagine Mrs Thatcher ever paying such an implicit tribute to Mr Heath. She thinks that the modern Conservative Party began with her under the tutelage of the now Lord Joseph. In fact, much of the policy was devised in the late 1960s. Sir Geoffrey is trying to re-establish some continuity.

His next sentence was a warning against allowing "success to go to our heads." It must be pretty clear whose head he means, though he is not too keen on the idea of Chancellor Lawson moving one number along Downing Street either.

Lord Whitelaw's illness suggests that some of the problems inherent in the Conservative Party, and perhaps in any party that has been in power for so long, may surface sooner than one had thought. Somebody has to control the House of Lords. Somebody has to be in line for the succession. At present the pieces are not exactly falling into place.

Although the good of Mrs Thatcher's administrations seems to me to have far outweighed the bad, here are some parting criticisms.

She has shown almost no interest in constitutional or even institutional reform. Not even Lord Whitelaw believes in the reform of the House of Lords. Yet there is a difference between the slogan picked up by the Prime Minister and some of her colleagues during the election campaign: "If it ain't broke, don't fix it", and letting the entire machine run into the ground.

I know that it is hard to get any kind of procedural change through the House of Commons, but one would like to believe that the Government is in favour of Parliament sitting at more civilised hours.

The televising of proceedings is now opposed more firmly than ever by the Prime Minister on the grounds that it would bring the House into disrepute. That is an attempt to sweep the mess under the floorboards and an insular argument to boot. Televised democracy works well in other countries. It might reduce the "ya-boo" element at Westminster but, even if not, the electorate might like to see what it votes for.

Cross-party select committees of the House of Commons, monitoring the work of Government departments, were introduced with a flourish shortly after Mrs Thatcher became Prime Minister. They have since fallen prey to the Whips' Office – the most pernicious institution in Parliament.

At the Tory Party Conference this year, it was actually announced which Whips were monitoring MPs' interests in particular subjects. Junior members of the Whips' Office went round the fringe meetings making a mental note of who turned up at, say, the sessions of Amnesty International or discussions on the future of Northern Ireland. There is no reason to believe that the Labour Party behaves much differently.

The machinery of government at the top works better than it used to. But that is because the Prime Minister has been around for a long time, knows the ropes and knows whom she trusts. The advice that she receives may be arbitrary or politically motivated rather than independent. Her successor will have to start from scratch.

Relations between Mrs Thatcher and her senior ministers have never been all that good. She has not been a great believer in Cabinet government and many of the dissidents or fainthearts have been removed. Yet it is quite a new factor for the Prime Minister to be in disagreement on some issues both with the Foreign Secretary and the Chancellor, as for example on full British membership of the European Monetary System. She is lucky that the pair of them seldom get together.

One of the arguments put forward in this space over the years is that the Cabinet system depends on the Prime Minister and the Chancellor seeing eye to eye. If they do not, there may be trouble ahead, particularly as one of the original Tory promises may be falling by the wayside.

The elimination of inflation is no longer at the top of the agenda. If it starts to rise again and the Prime Minister and the Chancellor cannot agree on how to deal with it, some of the old British problems may re-emerge, political and economic. Chancellors can be removed, like Selwyn Lloyd, or resign like Lord Thorneycroft. Prime Ministers can go under, like Harold Macmillan. But it is a messy process.

The new factor is that there is not much of a challenge from the opposition parties, which are likely to remain divided at least until after the next general election. That does not necessarily mean that British politics will be dull; perhaps far from it.

I should like to thank all those people who have helped me, from all parties and from none, by telephone, letter and conversation over the last decade. I have tried – admittedly from a somewhat advantaged position – to describe without prejudice what was going on.

Joe Rogaly, my successor, will add new zest and wisdom to this space from January. He will enjoy it and so will you. Happy Christmas.

Lombard

Leads, lags and short trousers

By John Plender

AS THE stock market crash recedes into the middle distance, Britain's industrialists appear much disaffected with a market system that inflicts damage on their share prices while order books and output remain thoroughly buoyant. A lot of nonsense got up by people in the City is how one industrialist put it to me last week; and there are numerous others who clearly think that the Square Mile is populated by overpaid manic depressives in short trousers. Industrialists, so the argument goes, are virtuous folk who live in the real world. They have no intention of being blown off course by short term pressures from the wrong side of Ludgate Circus.

One can sympathise up to a point – not least because the extent of the share price collapse in the UK seemed excessive in the light of Britain's current economic performance. Yet the rhetoric carries a suspicious echo from the 1970s, when industrialists were not notably prescient in their judgment of the swings in the economic cycle.

Those who have been out of short trousers for quite some time may recall the famous occasion in 1972 when Mr Edward Heath, then Prime Minister, savagely berated the leading lights of the Confederation of British Industry for their failure to invest. Then in 1973 they all cheered up in time for the mid-1970s crash. As growth that year hit its highest level since the war there was no shortage of industrious folk declaring that the stock market slide was overdone. The subsequent crash of 1974 was far more severe than anything we have seen this year, even if it progressed at a more stately pace.

Does this mean that the captains of industry are getting it wrong again? Or have the stock market analysts invented the threat of recession to provide retrospective justification for the crash? The industrialists are at least right about one thing: the chief difference between then and now is that interest rates rocketed in 1974, whereas they have come down in response to the investment strike in the equity market in 1987, so counteracting the rather nebulous wealth effects that were so heavily trumpeted in October. It follows that the crash of '87 could not impose an instantaneous shock on the corporate sector. The impact of what has happend so far, if there is any impact, will come on the demand side.

That said, it is always dangerous to argue that the stock market is devoid of predictive content. It has certainly been a better barometer than the 365 economists who called for an urgent policy response just when the UK economy was on the turn in 1981 – a point which may explain why media pundits have greeted a similar exercise this week by 33 economists from 13 countries with conspicuous caution. Yet the economists are surely right that the world is labouring under huge and threatening trade imbalances. Before concluding that the stock market crash has no implication for their corporate plans, industrialists should ask themselves whether they can really find more optimistic answers than the stock market did in October to some very important questions. Given that the US economy is close to capacity, how is US domestic demand going to be curbed to permit a reduction in the trade deficit that is central to the markets' malaise?

Among the more obvious alternative solutions are higher interest rates, or tighter fiscal policy, or a squeeze on real incomes as a plunging dollar generates inflationary increases in import costs. None of these things bode well for European industry, unless you believe – against most of the economic arithmetic publicised to date – that West Germany and Japan will plug the gap left by the US. If we muddle through 1988 without a serious decline in OECD economic growth, there is surely recessionary trouble in store for 1989. And in the market's present mood, an absence of policy change before next autumn's presidential election might well spell earlier trouble.

It would, of course, be nice if the industrialists were ultimately proved right. But if they are, the young men and women in the City would be entitled to ask why so many of them, in their role as pension fund trustees, urged fund managers to give equities a wide berth these last two months.

Letters to the Editor

'Crisis' parallels are doubtful

From Mr Tony W. Ching.

Sir, I doubt the parallel so frequently drawn in the FT (Anthony Harris, October 19, November 16; Samuel Brittan, October 29, November 26, December 3) between the genuine problems of the US today and the UK "crisis" of 1976. A close look at that discreditable episode suggests merely that an ill-advised government was stampeded into ridiculous postures and unnecessary measures.

While press and City opinion were being guided more by mob psychology than economics, out in the real world 1976 was proving rather a good year for Britain.

GDP and productivity growth, numbers in employment, personal savings, shares of world exports of goods and services, trade balance in manufactures, the international value of the pound - all were comparable with or much better than today. Real interest rates, levels of import penetration, government spending as a proportion of national income, average individual taxation (combined income tax, NI, VAT) and, of course, unemployment, were all lower.

Nor – despite the horrendous legacy of the oil-shock – was the long term being neglected. The slice of GNP devoted to investment was higher than in any year of the 1980s; industrial training flourished, with apprenticeships almost two and a half times their present levels. North Sea oil – that unique gift to the 1980s - was coming along at a cracking pace. If public spending was a problem we were in good company: government outlay as a proportion of GNP rose faster in 14 other OECD countries in 1973-76.

Even the balance of payments deficit so much fussed over was improving dramatically. It had halved in 1975 and halved again in 1976, when it was exceeded in no fewer than eight other OECD countries. None felt obliged to go limping off to the IMF.

Yes, there are important lessons from 1976. But being reminded that the judgment of the financial markets can be so badly wrong is hardly going to help convince the US authorities of the seriousness of their own situation.

Tony Ching,
4 Drayton Green Road,
Ealing, W13

Windfall qain could be clawed back

From Mr Jeremy Arnold

Sir, The political weakness of the Poll Tax is that it discriminates so clearly in favour of the rich at the expense of the poor. Is there not an elegant solution which would involve:

1. Restricting mortgage interest relief to the standard rate of tax, thereby clawing back a large part of the windfall gain which would otherwise accrue to the highly paid;

2. Using the proceeds to increase the central government share of educational expenditure (not unreasonable against a background of increasing central control over educational policy), and thus;

3. Bringing down the per capita impact of the poll tax to a level at which it would continue to act as a deterrent on high spending councils without being quite unbearably high for families on a low level of income?

Jeremy Arnold,
The Butts,
Cherington,
Shipston-on-Stour,
Warwickshire

No effect on house price inflation

From Mr Adrian Jack.

Sir, Samuel Brittan (December 10) repeats the myth that the replacement of the rates by the poll tax will increase house prices. The logic usually applied to prove this proposition is that the householder has the money which he used to need to pay his rates released, so that in a market where supply is inelastic, property values will increase by the capitalised value of the saving on the rates.

The fallacy is that, providing the poll tax raises the same revenue as the domestic rate, the net effect on families' income available for housing is nil. Naturally, since the incidence of the poll tax is different from that of the rates, some types of housing will become relatively more expensive (in particular "upmarket" properties will have a relatively greater premium over mid-market houses because the rich will be the main gainers from the new regime), but the change will have no overall effect on house price inflation.

Of course it may well be that less money will be raised through the poll tax than through the domestic rate so that an inflationary kick is given to the house market, but that will be a political decision, not because of the nature of a poll tax.

Adrian Jack,
135 Queen Alexandra Mansions,
Judd Street, WC1

TUC prepared the document

From the General Secretary of the Trades Union Congress.

Sir, Contrary to Philip Bassett's report (December 17) about trade union organisation at Wapping, the document referred to was not produced by "employees in Wapping."

It was prepared in the TUC as a basis for discussion with those affiliated unions concerned. Its contents and the ideas it contains have not been made known to or discussed with any employee at News International, including any member of the former Salaried Staffs Council nor indeed any other employee at News International.

Norman Willis
Congress House
Great Russell Street, WC1

Shareownership has some odd spinoffs

From Mr Lionel S. Goslin.

Sir, Since becoming the owner of a parcel of 400 shares in British Telecom my post has burgeoned. I have had letters from Norman Tebbit and Cilla Black, and one from the Salvation Army. Correspondence has come from West Germany, Holland, Malta, Gibraltar and faraway Florida. Now I have received an invitation to have my name in a prestigious publication.

There is more to wider shareownership than I ever dreamed.

Lionel Goslin,
The Cottage,
2 Wyke Oliver Road,
Preston,
Weymouth, Dorset

If intended for publication, letters to the Editor should include, where possible, a daytime telephone number.

It is time world attention shifted from US budget deficit cuts

From Mr S.K. Rao

Sir, Mr Dadzie's letter (December 3) on the need to avoid beggar-thy-neighbour policies in the current situation is a timely reminder that the world's attention may be far too pre-occupied with securing a cut in the US budget deficit.

While worries regarding the sustainability of the dollar - and the consequent fear of an upward pressure on interest rates - may have been the proximate cause of the stock market crash, it does not follow that a cut in the US budget deficit at this stage would revive world economic growth. Professor Stephen Marglin (FT, November 9) is indeed right when he warns of the dangers of curing the American trade deficit through a recession in the US rather than an expression elsewhere. Professor Maynard, who rebutts Samuel Brittan on the causes of the crash (Letters, November 24) is also aware of the dangers of relying on cuts in the US budget deficit as a remedy.

Imbalances in world trade can be got rid of by a massive world recession via exchange rate adjustments as the principal instrument, or, alternatively, through a fiscal expansion in the surplus industrial countries (Japan and West Germany) and, as Mr Dadzie rightly emphasises, in the developing countries. The focus on interest rate cuts in West Germany and Japan is not enough; there is not sufficient basis to believe that interest rate cuts in these countries - important policy measures as they are - will revive demand significantly.

What is needed is direct fiscal action - a combination of tax cuts and expansion in public expenditure. The size of budget deficits is a misnomer for policy in this context: where private savings exceed private investment significantly, it would be necessary for public expenditure to exceed revenues, if the slack is to be taken up. This is the position with West Germany and Japan. If they try to pass on their problems of adjustment (arising from excess of private savings) to other countries by trying to bring down their budget deficits at the same time, that would constitute a beggar-thy-neighbour policy. It is time world attention shifted from US budget deficit cuts to expansionary fiscal policy in these countries as the chief policy problem facing us today.

The industrial countries - if they are wise - would also help to revive global demand by improving net flows to developing countries. This they could do by agreeing to a significant increase in World Bank capital, a fresh SDR allocation, by agreeing to enhancement of resources available to IMF, and by debt relief measures. A half to one per cent fall in the GDP of the G-7 countries - which, on the most conservative basis in the present situation, can be expected - represents a loss of income of some \$50bn to \$100bn. The cost to these countries of undertaking stimulatory measures via provision of additional flows to developing countries would be a fraction of that.

S.K. Rao,
7 Maresfield Gardens,
London NW3

FINANCIAL TIMES

Friday December 18 1987

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Organised crime in Italy is bowed but not broken, reports John Wyles in Rome

Maxi-trial dents the Mafia armour

Michele Greco (above) in the Palermo courthouse before receiving a life jail term – he ran a multi-billion dollar drugs trade. Antonino Ciulla, who was acquitted, was shot dead within hours of his release

"THIS is not an historical moment. The Mafia was not on trial but some mafiosi. Second and third maxi-trials are now underway and there are many huge crimes still to be solved. Above all, the judgments here do not go beyond the Mafia of 1982."

Wisely, Leoluca Orlando, the 39-year-old mayor of Palermo, chose on Wednesday evening to pour cold water on the warm satisfaction with which many Italians in Sicily and on the mainland greeted the sentences handed down after 22 months of Italy's first maxi-trial.

No matter that the "pope," Michele Greco, who from the apex of the pyramid of the Sicilian Mafia ran the organisation's multi-billion dollar drug trade and coolly issued death sentences against the organisation's enemies, has been imprisoned for life. Nor that Ignazio Salvo, the immensely rich pillar of Sicilian society, considered untouchable because of the strength of his connections with the political world, faces seven years' imprisonment.

Despite the 19 life sentences and long prison terms levied in Palermo, the fact is that the Mafia is still in business, both illicit and licit, and that it still retains extraordinarily powerful roots in Sicily. The ease with which it can recruit from among the island's unemployed and disaffected derives both from cultural tradition and the universal awareness that Mafia connections guarantee wealth, upward mobility and considerable immunity from prosecution.

Moreover, the resigned passivity of those Sicilians who will have no truck with the Mafia is purchased by the knowledge that the money it brings into the island provides employment in construction and oils the wheels of commerce. They also know that "the men of honour" control a considerable amount of the public money poured into Sicily as a response to the unemployment and social backwardness which nourishes and sustains their activities.

It is this longstanding connection between the Mafia and the state as represented by some of its politicians which explains popular scepticism in Italy about whether the organisation will ever be brought to heel. The Palermo trial has not touched the political Mafia and the conviction is widespread that this will be the last thread of corruption to be broken, if it ever is.

Nonetheless, the trial does represent a considerable success for the civil power in Italy. "This ends the myth of the impermeability and the invincibility of the Mafia," wrote one commentator yesterday.

After the murder in September 1982 of General Carlo Alberto Dalla Chiesa, the Government's anti-Mafia high commissioner, the magistracy and the Government went to work with a determination which had hitherto been lacking.

However, there would have been more than 114 acquittals and fewer than 338 convictions on Wednesday evening if the state had not received the help of Mr Tommaso Buscetta, the crucial "pentito" whose evidence has secured convictions in the US where he is in heavily guarded seclusion, as well as Italy. He and two other pentiti proved that the bonds of "omerta" – the Mafia vow of silence – can be broken by mafiosi burning for revenge against the secret society.

In one chilling confrontation during the trial Buscetta screamed at one of the bosses, Pippo Calo, that his brother, brother-in-law, father-in-law, nephew, two children and several cousins had all been murdered. Why, he asked, had he not been killed? "Don't worry about that," said Calo in an icy whisper.

Buscetta still lives, thanks to his special protection. But the Mafia's first characteristic commentary on the trial came within a few hours of the sentencing on Wednesday night. Antonino Ciulla, aged 35, acquitted of criminal association, was shot dead on his way home after a family celebration.

Brazil seeks $11.5bn from bank creditors

BY IVO DAWNAY IN RIO DE JANEIRO

BRAZIL IS seeking $11.5bn in new loans from its commercial bank creditors for the three years 1987 to 1989 in order to refinance debt interest payments falling due over the period.

The new loans would cover 60 per cent of the debt burden and would make up the shortfall in the country's balance of payments, according to Mr Carlos Eduardo de Freitas, the external director of the Central Bank.

Projections being presented by Brazilian negotiators in New York break down the total into $3.4bn for this year and $3.7bn for 1988 with a further $4.4bn the following year.

They were revealed yesterday in a report from the US by the business newspaper, Gazeta Mercantil.

According to the report, the figure represents Brazil's opening negotiating demands at the rescheduling talks expected to continue well into the new year. Mr Freitas said that the proposals were negotiable.

They are based on assumptions of world average growth of 2.5 per cent next year and 3 per cent in 1989. Brazilian growth is estimated at 6 per cent of gross domestic product – a figure that many economists are likely to find highly ambitious given the country's current high inflation and low investment performance.

The Brazilian projection also aims to reduce the public sector deficit, excluding that incurred by the state sector companies to 2 per cent next year and 1.7 per cent in 1989.

This year, efforts to cut back total public sector overspending, including the state enterprises, collapsed under political pressures and a substantial increase in the salary bill.

Mr Fernao Bracher, Brazil's chief debt negotiator, yesterday criticised the slow pace of the talks with the 14-member committee that represents the country's commercial creditor banks.

He gave a warning that if the negotiation was not closed by the middle of January as was required in a preliminary rollover agreement last month, Brazil might be forced to resume the moratorium on interest payments it first imposed last February. "The banks know this," he said.

● Brazil yesterday announced a $1.04bn trade surplus for November and predicted a total surplus of just under $11bn for the year-end – a substantial rise on the $9.5bn originally projected.

Opposition rejects Roh's poll victory

BY MAGGIE FORD IN SEOUL

THE victory of Mr Roh Tae Woo in South Korea's first presidential election for 16 years was yesterday rejected by the two main opposition candidates as fraudulent.

Mr Kim Dae Jung and Mr Kim Young Sam claimed there had been widespread ballot rigging and voter manipulation. Both scored fewer votes than expected in a race that was predicted to be very close.

An atmosphere of gloom pervaded the country yesterday in the wake of the result. Many voters blamed the two Kims for failing to agree that one should stand down, leaving a single opposition candidate to be sure of defeating the military-backed government party.

Mr Roh called on the opposition to accept the result and settle their differences to avoid disruption to the country's stability and next year's Olympic Games in Seoul.

Mr Kim Young Sam, who trailed behind Mr Roh's 36.2 per cent of the tally by 2m votes, said the result was a "second coup d'etat." Mr Roh helped the incumbent President Chun Doo Hwan to win power through a military putsch in 1979.

Mr Kim Dae Jung said opposition parties, student and dissident groups would meet today to decide what to do about the alleged election fraud. He would wait to see the public's attitude before taking any action, but advocated non-violent protest.

Riot police were yesterday out on the streets of Seoul, but students stayed away. In Mr Kim's home province of Cholla, where he scored between 80 and 94 per cent of the votes, about 2,000 students confronted riot police in protest at Mr Roh's victory.

Both Kims suffered curious reverses in the election, especially in Seoul and in Mr Kim Young Sam's home area of Kyongsang province. Mr Kim only narrowly held Pusan, source of his strongest support, against Mr Roh.

In Seoul, where voting was expected to be close between the two Kims with mr Roh trailing, Mr Kim Dae Jung won with 32.4 per cent, Mr Roh obtained 29.5 per cent and Mr Kim Young Sam 28.4 per cent.

The EC is due today to declare an open trade war with South Korea by scrapping the preferential access its exporters are allowed in EC markets. The move is in retaliation for Seoul's refusal to give EC exporters the same legal protection against counterfeiting as their US competitors. A meeting of the EC's 12 ambassadors agreed that the trade privileges allowed to South Korean companies under the general system of preferences would be withdrawn from January 1.

Search for legitimacy goes on, Page 4; Editorial comment, Page 16

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	-	-	-	Dubrovnik	-	-	-	Malta	C	18	64	Rhodes	-	-	-
Algiers	-	-	-	Edinburgh	R	7	45	Manchester	C	11	52	Rio de J'o	S	35	95
Amsterdam	F	11	52	Faro	-	-	-	Manila	R	27	81	Rome	S	17	63
Athens	C	18	64	Florence	C	12	54	Melbourne	-	-	-	Salzburg	-	-	-
Bahrain	S	22	72	Frankfurt	R	4	39	Mexico City	S	25	77	San Francisco	F	12	54
Bangkok	S	29	84	Funchal	-	-	-	Miami	S	23	74	Seoul	F	5	41
Barcelona	S	17	63	Geneva	C	12	54	Milan	-	-	-	Singapore	S	31	88
Beirut	C	18	64	Gibraltar	S	19	66	Montreal	Sn	1	34	Stockholm	F	-10	14
Belfast	[illegible]	12	54	Glasgow	R	8	46	Moscow	F	-4	25	Strasbourg	-	-	-
Belgrade	F	1	34	Guernsey	R	12	54	Munich	R	11	52	Sydney	S	26	79
Berlin	R	7	45	Helsinki	F	-6	21	Nairobi	-	-	-	Taipei	C	18	64
Biarritz	S	22	72	H. Kong	F	18	64	Naples	F	16	61	Tangier	-	-	-
Bombay	-	-	-	Innsbruck	R	2	36	Nassau	C	30	86	Tel Aviv	S	20	68
Bordeaux	C	19	66	Inverness	C	2	36	New Delhi	S	24	75	Tenerife	-	-	-
Brussels	C	12	54	Islamabad	S	23	73	New York	F	5	41	Tokyo	F	13	55
Budapest	C	3	37	Istanbul	C	8	46	Nice	S	16	61	Toronto	Cu	2	36
B. Aires	R	30	86	Jakarta	R	29	84	Nicosia	C	17	63	Tunis	-	-	-
Cairo	S	21	70	Jersey	R	12	54	Oporto	-	-	-	Valencia	-	-	-
Cape Town	-	-	-	Jo'burg	C	26	79	Oslo	F	-6	21	Venice	S	7	45
Caracas	C	27	81	Lima	S	25	77	Paris	C	14	57	Vienna	R	0	32
Casablanca	-	-	-	Lisbon	R	18	64	Peking	-	-	-	Warsaw	C	-2	28
Chicago	C	0	32	London	R	14	57	Prague	-	-	-	Washington	-	-	-
Cologne	R	8	46	Los Angeles	C	12	53	Reykjavik	-	-	-	Zurich	-	-	-
Copenhagen	C	2	36	Luxembourg	R	10	50								
Corfu	-	-	-	Madrid	C	12	54								
Dallas	-	-	-	Majorca	S	19	66								
Dublin	R	14	57	Malaga	S	20	68								

Readings at mid-day yesterday
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Jakes takes over

Continued from Page 1

over to the powerful Ministry of the Interior where he rose to deputy minister.

***No doubt Mr Jakes's stint* at the Soviet party school in Moscow during 1955 and 1958 served him well for the future while in the meantime it earned him promotion in the Interior Ministry.**

***By 1966,* he was running the civil administration department which essentially co-ordinated co-operation between ministries, central authorities and national committees. That post gave Mr Jakes excellent contacts not only in Prague but also throughout the country.**

As the country buzzed with excitement during the flowering of the Prague spring, Mr Jakes kept his distance from Mr Dubcek while keeping in close contact with the Soviet leadership. He fully endorsed the invasion by Soviet-led Warsaw Pact troops on the night of August 20, 1968.

***He also fully endorsed* – in his capacity as chairman *of the central control and* auditing commission to which he was elected from March 1968 until 1977 – the *purging of the Czechoslovak* Communist Party. Under his supervision, almost 500,000 party members were expelled *after 1970.* When the question of rehabilitating some members was raised in 1976, Mr Jakes insisted that they publicly recant as a precondition for re-admission. A year later, he was elected a candidate member of the presidium.**

Such a record will not win independent-minded Czechs and Slovaks to Mr Jakes. But, being a pragmatist and recognising the changes taking place in the Soviet Union, Mr Jakes now has the go-ahead for attempting to pull the economy out of its deep lethargy, something which Mr Gorbachev has insisted upon.

Western technology 'lost'

Continued from Page 1

time that the Russians became interested in it and the US sought to block them.

In Britain, however, the sale of machinery and technology governing the process was not illegal. Nor was it banned by the Co-ordinating Committee for Multilateral Export Controls (Cocom).

The UK government, through the Department of Trade and Industry, approved the sale in 1983 and a contract between the Soviet Union and Consarc was signed.

What happened after that is matter of fierce dispute. Pentagon officials acknowledge that US intelligence appears to have failed, either by failing to spot the sale or, more likely, failing to share its knowledge with other US government agencies.

The result was a vital eight-month delay in which a substantial portion of material was shipped to the Soviet plant, just outside Moscow.

However, one senior Defence department official insists that the critical goods in the production of carbon-carbon – heating elements for isostatic presses – were never delivered.

Indeed, thanks to the prompt intervention of Mrs. Margaret Thatcher, the UK Prime Minister, in early 1985, customs officials seized a vital Consarc shipment. "It was a triumph of Anglo-American co-operation," the official said.

A British official, though less effusive, agreed that co-operation had been effective and had led to a change in Cocom rules. "The Soviet plant is not operational," he added.

Congressional officials and some of the Pentagon's bureaucratic rivals in the Reagan administration disagree vehemently. They claim the Soviet Union was able to purchase almost all the critical technology.

One official familiar with the sale said it was a disaster on a par with the sale by Toshiba, the Japanese electronics company, and Kongsberg of Norway of silent submarine propeller technology, which was disclosed this year.

The committee's statement last week was unequivocal: "Despite a long-standing appreciation of its strategic importance and knowledge of the desire of the Eastern bloc to obtain carbon-carbon capability, the sale of equipment itself was not controlled by the United States, by our allies, or by the so-called Cocom organisation."

"While US agencies argued among themselves about how to investigate and respond to critical information, the technology was being sold to the Soviet Union and equipment was being shipped continuously," Mr John Dingell, the Michigan Democrat and congressional sub-committee chairman, and Mr Thomas Biley, a Virginia Republican, said in a joint statment.

The final twist concerns the sale itself. The Soviet Union stipulated that it would not pay one rouble for the plant unless all the material was delivered. Consarc officials took out export insurance for 90 per cent of the $11m deal through Britain's Export Credit Guarantees Department. When the last shipments were seized in early 1985, the firm was able to claim a handsome insurance settlement and the Soviet Union a free deal.

Moscow seeks to establish closer links with EC

By Quentin Peel in Brussels

THE THAW in relations between the Soviet Union and the European Community has been significantly reinforced by a new request from Moscow to establish the "widest possible" co-operation with Brussels.

The proposal appears to go much further than the discussions held between the European Commission and Soviet negotiators last January, when the sole topic concerned diplomatic recognition of the EC – something the Soviet Union has refused to concede for 30 years.

Both sides have now agreed to hold talks early in the new year to examine the possible extent of co-operation, including the key question of whether it would include trade relations and the promotion of other economic links.

The new move was spelt out by Professor Ivan Ivanov, deputy chairman of the Soviet state commission for external economic relations, at a meeting with Mr Willy de Clercq, the EC Commissioner for external trade, in Brussels on Wednesday. The meeting was held at the Soviet request.

It coincided with separate, unofficial talks between Mr De Clercq and Mr Viatcheslav Sytchov, secretary of Comecon, the organisation of East bloc state trading countries, to discuss the key issue holding up agreement on a joint EC-Comecon declaration. That is the inclusion of the so-called Berlin clause, which effectively defines West Berlin as part of the EC.

At the meeting Mr Sytchov repeated the desire of the Comecon countries to reach agreement as soon as possible, and he was most concerned to discover just how adamant the EC was on including the clause, Commission officials said.

Mr Sytchov and Mr Ivanov were in Brussels on their way to a symposium on trade relations between the EC and Eastern Europe at the University of Ghent.

At both meetings it appeared to be the Soviet side which was most keen to press ahead with the process of normalising relations, and the EC which was showing most caution.

Mr De Clercq stressed the insistence of the Community on the inclusion of the "territorial clause" concerning Berlin in any EC-Comecon declaration. He pointed out that East Germany had itself accepted inclusion of the clause in an agreement on sheepmeat trade signed only three weeks ago.

He has already stated that the Commission's negotiators are simply waiting for a proposal from Comecon on how to handle the issue – and Wednesday's talks do not appear to have produced any magic formula.

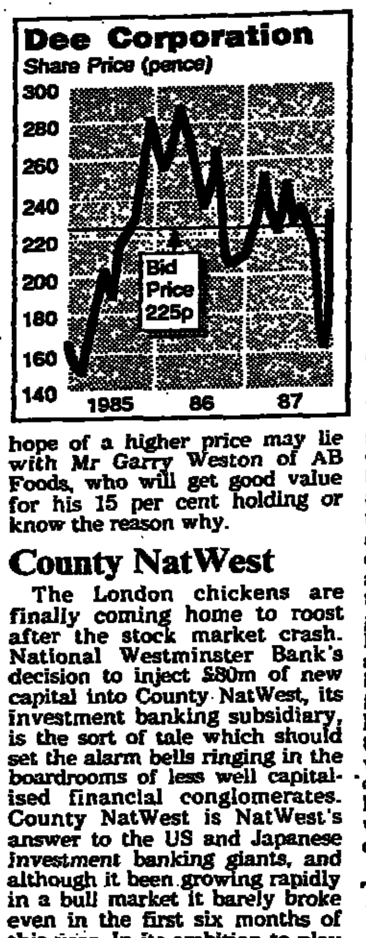
The EC has throughout insisted that a multilateral agreement with Comecon must be matched by a series of bilateral deals with individual Comecon member states on trade issues and other economic questions for which Comecon has no legal authority.

A third round of negotiations for just such a deal with Czechoslovakia took place in Brussels this week, without any final agreement – although a Commission spokesman expressed confidence that terms would be settled after one more round.

Until the meeting with Mr Ivanov – who carries ministerial rank in the Soviet Union – Moscow itself did not appear interested in any such bilateral deal. Although Mr Ivanov remained vague on the content of the desired co-operation, this should be clarified by the exploratory meeting in 1988.

THE LEX COLUMN

Cash on the nail for the grocer



The first reaction to Barker & Dobson's bid for Dee Corporation is irritation; this kind of minnow-and-whale business, surely, went out with the bull market. Then comes the thought that this one is rather different; Mr John Fletcher of Barker & Dobson has big time experience as a food retailer, and of more compelling interest to the market, the £1.25bn cash element in the bid is a great deal of folding money.

With the Dee price closing yesterday at 230p, 5p above the bid price, the market is also venting its feelings over Dee's Mr Alec Monk, whose star has fallen sadly over the past two years. The view now seems to be that though Mr Monk is an adroit financial engineer, his lack of retailing experience is beginning to tell. While this may be a little unfair on the difficulties of the Gateway/Fine Fare merger, the bid may eventually turn on the simple question of whether Mr Monk or Mr Fletcher is the right man to be in charge of 13 per cent of the UK grocery market.

On the other hand, the bid is partly – even largely – a break-up affair. It seems broadly that the 40 per cent or so of Dee which is to be kept is to be bought for paper, the rest being financed by a £1.25bn loan which will be repaid by selling the bits off over the next three years. The initial effect would be gearing of maybe 150 per cent, and possibly negative net worth, depending on the treatment of goodwill. It would be surprising if Dee – plainly caught badly off balance yesterday – were not to make this a main prong of their attack, another presumably being why Asda dispensed with Mr Fletcher's services so summarily three years ago.

But unless the bear market has a lot further to go, some of the break-up values would look seductive. Getting back the £278m paid 18 months ago for Herman's in the US could be tricky, but the superstores in the UK might fetch over £500m. Meanwhile, Mr Fletcher would be left with 10 per cent of the grocery market, some of the stores having meanwhile gone through the bizarre conversion from Fine Fare to Gateway to Budgen in a matter of months.

The market now has to figure out whether it can squeeze more from the bidder than a rather measly 14 times current year earnings. The difficulty is finding a counter-bidder; no big food retailer would be allowed to bid, and anyone else wuold probably find Gateway too much of a muddle at this stage. The best hope of a higher price may lie with Mr Garry Weston of AB Foods, who will get good value for his 15 per cent holding or know the reason why.

County NatWest

The London chickens are finally coming home to roost after the stock market crash. National Westminster Bank's decision to inject £80m of new capital into County NatWest, its investment banking subsidiary, is the sort of tale which should set the alarm bells ringing in the boardrooms of less well capitalised financial conglomerates. County NatWest is NatWest's answer to the US and Japanese investment banking giants, and although it been growing rapidly in a bull market it barely broke even in the first six months of this year. In its ambition to play in the big league, County appears to have thrown caution to the wind and after backing the UK's biggest ever rights issue it has ended up owning a substantial chunk of Blue Arrow, a company which was valued at just £3m when it came to the USM three years ago. It is now nursing a £49m loss and this, together with a further £20m of losses post-crash, makes NatWest's investment look very much like an emergency capital injection. At least NatWest can afford it, although it will not have helped its image as Britain's best run clearing bank.

Grand Metropolitan

The timing of Seagram's claim on Martell has cast a faint shadow over Grand Metropolitan's full year figures, through pointing up the company's weakness in the important Far Eastern market. But it is hardly enough to obscure this impressive confirmation of GrandMet's recovered poise. The trading position is for once consistently strong, and earnings growth above the market average looks in the bag for the next two years at least. Heublein is living up to the high hopes invested in it and the timing of the divestments now looks shrewd. Above all, while strong central financial management has long been a hallmark of GrandMet – and is surely underlined by the mid-year interest rate swaps – it is now displaying the operational management skills that have long been promised.

Like Hanson the stock took a post-crash dive on fears over US earnings only to bounce back, and slightly outperform the market over two months, when wiser (or at least different) counsels prevailed. Part of that recovery is presumably due to the fact that the proportion of US profits, at 21 per cent of the after tax total, is not so big after all; however, the underlying exposure could still be more than it looks and will almost certainly rise. On the other hand the gearing at 77 per cent is less worrying than it looks given the interest cover and the unvalued brands in the balance sheet. So although a bid for Martell might have to be launched earlier than planned, thanks to Seagram, success would not put much of a strain on the company's finances. Indeed the cognac company would cost not much more than one year's operational cash flow.

Takeover Panel

The City Takeover Code is one of those documents which may seem simple to the practitioners, but is scarcely comprehensible to the ordinary industrialist whose fortunes may depend on its interpretation. The latest change in the rules is a welcome step in the direction of making them more understandable. Until now, a company which had made a small investment in a competitor, say, and then decided some time later that it wanted to make a full bid, had to demonstrate to the Takeover Panel that an offer was not "reasonably in contemplation" at the time when it bought its previous stake. Otherwise the price of its last investment determined the minimum price it could offer. The uncertainty caused by this rule was only a theoretical problem in a bull market; but it has become more real following the stock-market crash. The decision to apply the rule for a fixed three-month period after the last share purchase is longer than has generally applied under the old rule, so the change should not be seen as a gift to the predators.

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
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COUNTY NATWEST SUSTAINS HEAVY LOSSES OVER MARKET CRASH

UK investment bank loses £69m

BY DAVID WALLER IN LONDON

COUNTY NATWEST, the investment banking arm of National Westminster Bank – one of the four main UK clearing banks – yesterday said it had lost £69m ($124m) in October's stock market crash. A 9.5 per cent stake in the shares of a single company, the Blue Arrow recruitment agency, accounted for £49m of this.

The losses are the largest reported so far by a British investment bank. BZW, the Barclays Bank subsidiary, is believed to have lost around £60m in the crash.

NatWest has put an extra £80m into County to satisfy the Bank of England about the bank's capital resources, Mr Charles Villiers, County chairman, said yesterday.

Of this, £11m is to cover further indirect losses resulting from the crash, and to provide capital backing for the expansion of the bank's business. Indirect losses are believed to include those on market making because of lower turnover after the crash.

The Blue Arrow losses result from County's involvement in helping the company to finance its takeover of Manpower, a US recruitment firm, this autumn, and from a large position (or risk) taken by the bank's market makers.

County was left with 4.9 per cent of Blue Arrow's shares in the capital-raising exercise when share prices fell in October. The shares now stand at 93p, compared with the 166p County paid for them.

The bank's market makers bought a further 4.6 per cent of Blue Arrow's shares at around the same price, taking its total holding to 9.5 per cent.

The market makers' position was "properly authorised" and within the normal trading limits set by County, said Mr Villiers.

Mr Villiers said that County regarded the Blue Arrow stake as a good investment, and that it had not set a target price at which it would sell. "We have said to Blue Arrow that we have no plans to sell the shares."

The other £20m losses had arisen from a number of areas, including underwriting, market making and clients failing to pay debts.

Around £5m is believed to result from losses on traded options, where clients ran up debts they were unable to repay. One client accumulated debts of more than £1m during the stock market crash. A number of executives have since been sacked over the incident.

Leaving aside the Blue Arrow losses, County's market making business, which is believed to have made profits of £13m to £14m in the first half of the year, is reported to be still in profit for the year as a whole.

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Finnish groups buy Skandia stake

BY OLLI VIRTANEN IN HELSINKI AND SARA WEBB IN STOCKHOLM

KANSALLIS-OSAKE-Pankki, Finland's leading bank, and Pohjola, the country's largest insurance company, will acquire a 15.8 per cent holding in Skandia, Sweden's biggest insurance group, for SKr1.6bn ($269m).

The shares will be sold by Investment AB Beijer, the Swedish financial, trading and industrial company dominated by Mr Anders Wall, the financier. The total value of Skandia's 9.5m shares was SKr14bn on the Stockholm stock exchange yesterday.

The deal will be executed in two parts, with 5m shares changing hands in May 1988 and the rest at the beginning of 1989. Kansallis and Pohjola do not say how they plan to control or split the holding.

Kansallis and Pohjola will be the largest shareholders in Skandia with the next biggest block amounting to 6.3 per cent of the share capital.

According to Mr Matti Korhonen, senior vice-president of Kansallis, the deal will give the Finnish institutions an excellent vantage point to the Swedish economy. At least one of the two Finnish companies will have a seat on the board of Skandia, the group with a wide range of holdings in Swedish companies. KOP has made several moves to penetrate deeper in the other Nordic countries, including opening a subsidiary in Stockholm last year. Pohjola expects to engage in various insurance services in co-operation with its Swedish counterpart Beijer said it had been planning to sell its stake in Skandia as part of its move away from being a pure investment company. The SKr1.6bn would be used to make further acquisitions, Mr Wall said.

Beijer was merged with Argentus, another Anders Wall company, earlier this year and is being reorganised as an industrial manufacturing and trading/distribution concern so that it can qualify as an operating company, as opposed to a pure investment company, because this would give it certain tax advantages.

As part of the merger deal, Argentus had planned to make a new share issue late in 1987, but this was scuppered by the bourse crash. "Now that we have SKr1.6bn, it is not necessary to have the share issue," said Mr Wall.

He said that the Argentus/Beijer group had sold off a considerable part of its share portfolio recently.

Texas Instruments to sell 60% of oil unit

BY LOUISE KEHOE IN SAN FRANCISCO

TEXAS INSTRUMENTS, the US electronics and semiconductor manufacturer, has signed a letter of intent to sell 80 per cent of its geophysical oil services business to Halliburton, a leading Texas oil services company.

The move follows repeated cuts at the TI subsidiary, Geophysical Services (GSI) over the past two years. According to the companies, the agreement also provides for the possible sale of TI's remaining 40 per cent holding within a few years at the option of either company.

Halliburton will make an initial cash payment to TI of about $50m, with a potential additional cash payment in 1991. Both the amount of the additional payment for the initial purchase and the option price on possible acquisition of TI's remaining interest in GSI will depend mainly on its future financial performance, the companies said.

Both companies emphasised that the actions are subject to a definitive agreement which they aim to complete during the first quarter of 1988.

For TI, the anticipated sale represents the shedding of the business around which the company was originally formed. TI has long since diversified, however, becoming the largest semiconductor manufacturer in the US and a major military contractor.

For Halliburton, the investment will strengthen its technology-driven oilfield services business segment, the company said. GSI is based in Dallas and employs about 2,900.

Husky Oil may buy Texaco Canada

By James Buchan in New York

HUSKY OIL, the Alberta-based petroleum group, is in talks to buy the Canadian subsidiary of Texaco, the crippled US oil giant which may need to sell assets to finance a settlement of its dispute with Pennzoil.

Husky, which is privately held, said it had held talks in New York with Texaco and with the committees of creditors and stockholders represented at the company's bankruptcy proceedings.

The creditors are trying to force the group to sell Texaco Canada to finance a $3.01bn cash payment which is Pennzoil's price for a settlement of its four-year dispute.

Texaco took refuge in bankruptcy to escape enforcement of a $10.3bn award of damages to Pennzoil, which has accused Texaco of interfering with its contract to buy part of Getty Oil in early 1984.

Other Canadian companies, which are alone permitted to buy the company under Canadian law, are believed to have expressed interest in Texaco Canada.

The company has about 400m barrels in proven reserves of oil and gas liquids, 2bn cu ft of natural gas and a substantial marketing network.

Texaco's 78 per cent stake in the company is believed to be worth about $2bn.

Husky, which enjoys annual revenues of about C$700m (US$538m), said it had not decided whether to make a formal offer.

Texaco is not believed to be keen to sell.

Officials of Texaco and Pennzoil, and representatives of the two committees, were yesterday closeted in talks in Manhattan in an attempt to reach agreement over a settlement plan to be filed with the bankruptcy court.

Talks have become bogged down on a list of demands by the committees to limit Texaco management's freedom of action.

Anatole Kaletsky in New York reports on a surprise resignation

Kaufman to quit Salomon

DR HENRY KAUFMAN, the highly-rated chief economist and head of research at Salomon Brothers, is to leave the leading Wall Street firm.

The unexpected announcement seems likely to add to the doubts about Salomon's strategic direction after a long series of financial and managerial setbacks which have been eating away at the firm's prestige.

Salomon said Dr Kaufman would be leaving in the first quarter of next year to set up his own economic consultancy.

No reason was given for his departure, which Mr Robert Salomon, one of the firm's managing directors, described as "a purely personal decision," not connected in any way with the extensive reorganisation and staff cuts which Salomon announced two months ago.

However, Dr Kaufman is known to have had differences with some other senior members of Salomon's management, mainly over his outspoken anxieties about the inherent risks in various financial innovations, including junk bonds, novel hedging instruments and merchant banking strategies in highly-leveraged takeover bids.

Henry Kaufman: Setting up own economic consultancy

These differences culminated in October last year with Dr Kaufman's resignation as vice-chairman of Salomon Inc, the holding company.

Dr Kaufman has been Wall Street's most famous and influential economist since the mid-1970s.

His reputation reached its zenith in 1980 when he earned the sobriquet of Dr Doom by predicting with remarkable accuracy the bond market collapse and inflationary spiral which pushed US interest rates up to a peak of 20 per cent and precipitated the worst recession since the 1930s.

For a time, his pronouncements on interest rates were important market-moving events in their own right, and Salomon's advance access to his views was regarded as one of the firm's major trading advantages.

Although his forecasting record has been much poorer since the beginning of the bull market in 1982, his views have continued to command a wide following.

Dr Kaufman said he was resigning from Salomon on amicable terms and was leaving behind him the strongest research department the firm has ever had.

The only policy differences between himself and the firm's management had already been well aired a year ago when he resigned as vice-chairman.

Marsh & McLennan to reorganise worldwide

BY NICK BUNKER IN LONDON

MARSH & MCLENNAN Companies, the world's biggest insurance broker, is to reshuffle its broking operations worldwide in what Mr Frank Tasco, group chairman, calls a plan to create a "truly global" broking business.

One aim is to make M&M better suited for servicing transnational corporate clients in the European Community in the run-up to 1992, the EC's deadline for creating a free market in services including insurance.

"One of the things in our minds is that barriers are going down in Europe," Mr Tasco said in London yesterday.

Insurance services will be divided between two main M&M direct broking companies. A third "joint venture" company, Marsh & McLennan Worldwide Services, will look after global marketing and provide specialised support and facilities.

Guy Carpenter, M&M's reinsurance broking arm, will not be affected.

All M&M's direct insurance broking outside North America will come under Marsh & McLennan Bowring, a new London-based company, including C.T. Bowring, the group's London subsidiary.

US and Canadian direct broking will come under New York-based Marsh & McLennan, to be chaired by Mr Bob Clements, one of the architects of ACE and XL, the offshore insurance facilities created by M&M during the 1984-86 US liability insurance crisis to provide coverage for major industrial corporations.

Toronto broker to receive contingency aid

By Robert Gibbens in Montreal

THE CANADIAN securities industry's National Contingency Fund has taken the unusual step of lending C$10m (US$7.6m) to Osler, an old-established Toronto brokerage, to restore its capital position.

Osler is believed to have incurred losses of C$25m – three times its capital – since October 19.

Normally the contingency fund has been used to pay off public clients when a broker goes bankrupt. The Toronto Stock Exchange will supervise Osler's business.

Industry sources said Osler's principals had tried to find a buyer for the firm since last summer.

INTERNATIONAL COMPANIES & FINANCE

Nedlloyd expects 'considerable loss'

BY LAURA RAUN IN AMSTERDAM

NEDLLOYD, the Dutch transportation group, disclosed yesterday that it expects a "considerable loss" for 1987 due to a large write-down on ships and offshore drilling equipment.

Mr Peter Knottenbelt, secretary to the executive board, refused to be drawn on the exact size of the write-down or foreseen losses, saying that more details would be announced on January 7.

Nedlloyd, a diversified transport group involved in ocean shipping, overland transport, airlines and offshore oil and gas exploration, also said yesterday that it would seek fresh capital through a private share placing of up to Fl 200m ($109m).

For the first half of 1987 the group incurred a loss of Fl 56m following the drop in the dollar and the plunge in the shipping and energy industries. Net earnings in 1986 totalled Fl 72m.

The same factors were blamed for the assets write-down. Nedlloyd said it expected to return to the black in 1988 with a net profit of more than Fl 100m because the non-recurring write-down would trim depreciation costs and because operations would improve. For the second half of 1987 the company would have posted a small profit without the write-down.

Nedlloyd intends to pay a dividend for 1987, the company said in an anxiously awaited statement. Share trading in Nedlloyd had been suspended since midday Tuesday when the stock price jumped sharply amid fresh speculation of a hostile takeover bid.

To improve solvency Nedlloyd plans to privately place with financial institutions between Fl 150m and Fl 200m of newly issued cumulative preferred shares. The issue would double the outstanding capital.

MAN forecasts further improvement in income

BY OUR FRANKFURT STAFF

MAN, West Germany's largest engineering group, expected a further improvement in profits this financial year, said Mr Klaus Goette, the chairman.

But he added that earnings were still too small. The company had already announced higher net income for the year to the end of June of DM135m ($84m) against DM122m. Before financial provisions and taxes, profits were DM580m against DM500m.

Mr Goette said new orders had risen by 7 per cent to DM5.3bn in the five months to the end of November, a 2 per cent drop at home comparing with a 19 per cent advance abroad. Turnover was 8 per cent lower, after an 11 per cent decline to DM3.4bn in the first four months.

In recent years, MAN has undergone extensive restructuring. It has moved its headquarters from Oberhausen in the Ruhr to Munich in the south and merged with the company that used to be its parent, Gutehoffnungshuette (GHH).

Mr Goette said his restrained optimism for 1987-88 was based on the strong state of the order inflow across the group. The stated order inflow does not include the near DM1bn contract placed by News International, headed by Mr Rupert Murdoch, with the MAN-Roland print machine subsidiary.

Mr Goette said this order showed how German manufacturers could overcome the export disadvantage of a strong currency by offering advanced technology. While MAN had not felt any impact from the recent turbulence on world financial markets, he added that this could not be ruled out later.

De Benedetti lifts stake in publishing concern

BY DAVID LANE IN MILAN

SABAUDIA, the Italian financial holding company headed by Mr Carlo De Benedetti, has increased its stake in Mondadori, the Milan publishing house, raising its shareholding from 18.9 to 24.9 per cent.

Mr De Benedetti's company has become the second largest shareholder in AME Finanziaria, which has a controlling interest of 50.3 per cent in Mondadori. In addition Mr De Benedetti has increased his direct holding in Mondadori from 17.5 to 20 per cent by purchases on the Milan stock market.

Through direct and indirect stakes Mr De Benedetti now holds about 32 per cent of Mondadori shares and is the largest shareholder in the publishing company.

It has been reported that Mr De Benedetti has taken advantage of a dispute between family shareholders at Mondadori. His move is part of a wider battle for control over the Italian publishing sector. Mondadori has a 50 per cent stake in La Repubblica, generally recognised as Italy's leading daily newspaper

Mondadori group sales are expected to reach L1,300bn this year

VW sees maintained earnings for 1987

By Haig Simonian in Frankfurt

VOLKSWAGEN, THE West German motor group, says profits for 1987 at both group and parent company level will be much the same as the DM2.1bn ($1.3m) the group earned before tax last year.

Group turnover this year would be up about 1 per cent to more than DM53bn, while parent company sales were likely to increase 5 per cent to more than DM43bn.

VW attributed the increase largely to success in Europe, where VW, Audi and Seat have a 15 per cent market share, which had more than made up for lower turnover in North and South America.

Revealing that it had sold almost 200,000 fewer vehicles in North, central and South America this year, VW attributed the decline largely to the economic crisis in Latin America.

However, this year's 6 per cent increase in sales in Europe, where VW is the market leader for the third year running, and in certain other key markets, meant the total sales would only just fall short of last year's level of 2.76m units.

Despite greater uncertainties than this time last year, VW said it was "confident" about the outlook for 1988.

Porsche sales falter as price competition mounts

Andrew Fisher on the management upheaval at the West German fast car group

THAT SLEEK sports car haring past you on the motorway may look like a Porsche, but the chances are these days that it comes from Japan.

On a closer look, there can be no doubt. More and more fast-lane enthusiasts are prepared these days to forgo the exclusivity of the Porsche name for a cheaper car, with the same or more power and a greater range of features.

This is the situation now facing Mr Heinz Branitzki, the soft-spoken finance man, who *has just stepped into the chairman's slot* vacated by the more extrovert, globe-trotting Mr Peter Schutz. Prompting the latter's departure this week were the production cuts and short-time working forced on the Stuttgart company by the impact of the Wall Street collapse in October.

Already hit by the falling dollar, Porsche, controlled by the Porsche and Piech families, found the aftermath of Black Monday hard to bear. Sales plummetted in the US – in the first 11 months of 1987, they were 17 per cent lower at 22,350 cars – and the outlook is bleak, at least in the short-term.

Thus the growing competition from the Far East has come at a time when Porsche is particularly vulnerable, and from companies with far greater financial and marketing resources than the German concern. "The Japanese are eating into Porsche's market on both sides of the Atlantic," said Mr Stephen Reitman, European motors analyst with London stockbroker Phillips and Drew.

Porsche still has plenty of financial strength derived from the time when the US currency was riding high, and sales to the US, which account for about 60 per cent of turnover, represented high margin business. It has no borrowings and nearly DM400m in cash. In its financial year ended July 1985 net profits reached a peak of DM120m ($75m), three times the level of 1981-82. The result for 1986-87 will not be known until late next month, but analysts expect less than DM60m after DM75m in 1985-86.

Having cut output, Porsche will have to see how long it takes before its models become scarce enough to regain their cachet. Not everyone wants to buy Japanese, whether the model is a Mazda look-alike, a Toyota or a Nissan.

Even so, at a time when financial caution has smothered much of the desire to spend, the Japanese have a marked price edge. Porsche's cheapest car in the US, the four-cylinder 924S costing $26,000 is undercut by about $3,000 by the Toyota Supra and by $2,000 on the turbo version.

For Mr Branitzki, off to the US yesterday on a trip arranged before he was promoted from finance director and deputy chairman, the statistics do not make cheerful pre-Christmas reading. But in and outside the company, he is regarded to some extent as the right man for a crisis, while the strategically-minded Mr Schutz was the person suited for expansion. "He built up the US operation very successfuly," says Mr Adrian Brundrett, an analyst with Citibank AG in Fankfurt. "But he seems to have overdone it."

Born in Berlin and brought up in the US, Mr Schutz has not said whether he plans to return to the US. He has a house there and a vintage aircraft.

For Mr Branitzki, whose hobbies are the earth-bound ones of skiing, walking and chess, the task will be to retain the company's exclusive and part-hedonistic image without it becoming out of reach or out of tune with the times.

He may have something else to ponder, too. With vague (though strongly denied) talk of takeover in the air – Daimler-Benz, a user of Porsche's research facilities is down the road – the quoted preference shares may find some speculative buyers in coming months.

EUROMONEY PUBLICATIONS PLC

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the annual general meeting of the company will be held in The Board Room, Carmelite House, Carmelite Street, London EC4 on Wednesday, 27th January 1988 at 11.00 am for the following purposes:

1. To receive reports of the directors and the auditors and the accounts for the year ended 30th September 1987.
2. To approve a final dividend for the year ended 30th September 1987 of 8.75p on each of the ordinary shares of 1p each then in issue.
3. To re-elect PJ Saunders as a director.
4. To re-elect The Viscount Rothermere as a director.
5. To re-elect T Hosomi as a director.
6. To re-elect Sir Michael Sandberg as a director.
7. To re-appoint Ernst & Whinney as auditors of the company and to authorise the directors to fix their remuneration.

By order of the board
PS Gaunt
Secretary

18th December 1987

Notes:

1. Holders of international depositary receipts (IDR's) in respect of ordinary shares in the company may give directions in writing as to the voting of such ordinary shares on application to Banque Internationale à Luxembourg SA (BIL) of 2 Boulevard Royal 2953, Luxembourg, attention securities department, and by depositing their IDR's with BIL or any of the agents mentioned on the IDR's. Such instructions must be received by BIL and such deposits must be made not later than 11.00 am on Wednesday, 20th January 1988.
2. It is proposed to pay the final dividend, if approved, on 28th January 1988 to shareholders registered on 18th December 1987.
3. Holders of international depositary receipts can receive their dividend, if approved, from 28th January 1988, by presentation of coupon number 1 to Banque Internationale à Luxembourg or one of the agents.

Porter Paint Co.

has been acquired by

Courtaulds plc

We initiated this transaction and acted as financial advisor to Porter Paint Co.

Goldman Sachs

Goldman Sachs International Corp.

December 15, 1987

Gutehoffnungshütte Overseas N.V.

U.S.$25,000,000

7¾ per cent. Guaranteed Bonds 1981/88

NOTICE OF FINAL REDEMPTION

Bondholders are advised that all outstanding Bonds are redeemable at par on 1st February, 1988 and that interest will cease to accrue on that date.

Bonds are payable at:–

S.G. Warburg & Co. Ltd.
Paying Agency, 6th Floor, 1 Finsbury Avenue, London EC2M 2PA

or one of the other Paying Agents named on the Bonds.

Bonds and Coupons will become void unless presented for redemption or payment within periods of 12 years and six years respectively from the due date.

The following Bonds drawn for redemption on the dates stated below have not yet been presented for payment:–

1st February, 1987

1038	1946	2386	2388	4535	4768	5171	5173
5175	5178	5180	5182	5184	5186	5188	6253
6255	7018	7021	7023	7654	7791	7793	13103
15691	15693	15695	15698	15700	15702	15704	15706
15708	24588	24590	24592	24597	24599	24601	24603
24609	24611	24613	24615				

1st February, 1986

2389	5177	5189	7653	15697	15709

18th December, 1987

NBD BANCORP, INC.
US$100,000,000
Floating Rate Subordinated Notes due 2005

Notice is hereby given that for the interest period 18th December 1987 to 18th March 1988 the interest rate has been fixed at 8¼%. Interest payable on 18th March 1988 will amount to US$208.54 per US$10,000 Note.

Agent Bank:
Morgan Guaranty Trust Company of New York
London

AMENDED NOTICE

The Molson Companies Limited

(Incorporated with limited liability under the laws of Canada)

U.S. $20,000,000 Floating Rate Notes
Issue date 18th March 1987
Maturity date 18th March 1992

For the three month interest period from 18th December 1987 to 18th March 1988 the rate of interest on the notes will be 8% per annum. The interest payable on the relevant interest payment date will be U.S. $10,111.11 per U.S. $500,000 note.

Morgan Grenfell & Co. Limited
Reference Agent

U.S. $200,000,000

BANK OF BOSTON CORPORATION

Floating Rate Notes Due 2000
Issued 12th September 1985

Interest Period	14th September 1987 / 14th March 1988
Interest Amount per U.S. $50,000 Note due 14th March 1988	U.S. $2,109.72

Credit Suisse First Boston Limited
Agent Bank

AUSTRALIA

200 YEARS OF NATIONHOOD

26 JANUARY 1988

For More Information about advertising in this survey and a copy of the synopsis, contact Peter Highland or Tina-Louise Collins on:
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FINANCIAL TIMES
EUROPE'S BUSINESS NEWSPAPER

INTL. COMPANIES

Fuji Photo sees slight increase in net earnings

BY OUR FINANCIAL STAFF

FUJI PHOTO FILM has forecast parent net profits of Y62bn ($487.8m) for the year to October 20, 1988, up slightly from Y61.84bn a year earlier.

The company says profits are expected to rise to Y128bn, from Y127.35bn in 1986-87. Sales are expected to rise to Y700bn from Y680bn.

Fuji Photo plans to pay a Y13.50 dividend for the 1987-88 period, unchanged from the previous year.

The forecast is based on Fuji Photo's plans to promote new products, cut production costs and strengthen its sales force. It comes in spite of strong competition from rival companies and gloomy export prospects against the backdrop of serious international trade issues.

The company earlier reported a parent net profit of Y61.84bn in the year ended October 20, 1987, up 12.8 per cent from the previous period. Current profit was Y127.35bn, an 11.8 per cent increase from Y113.91bn in 1985-86.

Operating profit rose 11 per cent, to Y113.37bn, in 1986-87, compared with Y102.17bn a year earlier.

Sales rose by 5.4 per cent, to Y680.05bn from Y644.96bn in 1985-86. The dividend was Y13.50, unchanged from the previous year.

British group buys into Colly Farms

BY OUR FINANCIAL STAFF

ANGLO AMERICAN Agriculture of Britain has acquired 1.8m shares, or 4.9 per cent of the issued capital, of Colly Farms Cotton of Australia, according to Baring Brothers, Halkerston and Partners, Anglo American's agent.

Baring Brothers said the shares of the cotton producer, subject of a takeover bid by Kerry Packer's privately owned Consolidated Press Holdings, were acquired at between A$1.87 and A$1.90 (US$1.33 and US$1.35) a share.

Mr Packer launched a A$1.86 a share bid on Tuesday for all the stock in Australia's second-biggest cotton producer.

Consolidated Press holds a 19.33 per cent stake in the New South Wales cotton producer. It bought Auscott, the country's biggest cotton producer, two months ago.

The board of Colly Farms had earlier said that in the absence of a higher offer it would recommend acceptance of the Consolidated Press bid and that shareholders representing about 33 per cent of issued capital had indicated they would accept.

But the board yesterday advised shareholders not to sell their shares because of the possibility of a higher offer.

The company said: "The board will seek immediate discussions to clarify the situation for shareholders. In the meantime, the board advises Colly Farms shareholders not to sell their shares in case a higher offer is received."

Australia produces about 200,000 tonnes of cotton a year, about 90 per cent of which is exported.

Singapore drinks group edges ahead

By Our Financial Staff

FRASER & NEAVE, a leading Singapore food and drink manufacturer and distributor, says group operating profits in the year ended September climbed by 18.5 per cent to S$111.7m (US$56.1m), compared with S$94.2m in the previous year.

Turnover rose by 5 per cent, to S$811.9m, from S$773m.

The company said the portion of operating profit derived from Fraser & Neave operations only – chiefly beverage bottling and distribution – fell by 7.4 per cent, to S$16.7m. Its Malayan Breweries subsidiary provided S$70.2m, up 18.6 per cent from a year earlier.

The share of profits from associates added S$11.9m to operating profits, a 133 per cent increase from S$5.1m recorded a year earlier, while investment income edged up 8 per cent, to S$12.9m.

Weak demand for Shangri-La rights issue

By Our Financial Staff

SHANGRI-LA HOTEL says its one-for-10 rights issue, totalling S$45m ($22.6m), received acceptances for only 74.3 per cent of the shares on offer.

Shangri-La is the latest in a succession of Singapore and Malaysian companies to face problems with their cash calls because of the collapse of global equity prices in October.

The company received acceptances for 7.43m of the 10m S$1 shares offered at S$4.50 a share. Shangri-La shares, which hit a peak of S$7.15 in July, closed at S$3.56 on the Singapore exchange yesterday.

The remaining 2.57m shares were almost entirely taken up by the chief underwriter for the issue, Development Bank of Singapore.

First Pacific in venture to acquire Thai broker

BY OUR FINANCIAL STAFF

HONG KONG'S First Pacific Securities (Holdings) has joined Yip Intsoi Finance, the Thai securities house, and Thailand's Bank of Asia to acquire World Securities, the Thai stockbroker.

Mr Manuel Pangilinan, chairman of First Pacific Group, said the purchase, which has still to be approved by Thai monetary authorities, would be a step towards First Pacific's goal of building a network of securities companies throughout South-East Asia.

He said World Securities would focus mainly on serving foreigners wishing to invest in the Thai market.

Mr Pangilinan said the three partners bought equal shares in World Securities at a premium of more than 100 per cent over its paid-up capital of Baht10m ($393,855).

He said the payment of a large premium was unavoidable as World Securities was one of the few brokers available for purchase in Thailand.

Thai authorities are considering raising the minimum capital requirement for brokerages to Baht20m, from Baht10m. The move would require an additional capital outlay from the purchasers, Mr Pangilinan said.

Although World Securities is licensed to trade securities, it does not have a seat on the Securities Exchange of Thailand and has not been active in the market under its existing owners.

But Mr Pangilinan said that following the purchase, World Securities would begin immediately to trade as a sub-broker, and he expected the company to win approval of its application for a seat on the exchange by the end of the month.

U.S. $200,000,000

B.B.L. International N.V.

Floating Rate Notes Due 2001

Guaranteed on a Subordinated Basis as to payment of principal and interest by

BBL

Banque Bruxelles Lambert S.A./ Bank Brussel Lambert N.V.

Interest Rate	8.175% per annum
Interest Period	18th December 1987 / 20th June 1988
Interest Amount due 20th June 1988 per U.S. $10,000 Note	U.S. $ 420.10
per U.S. $250,000 Note	U.S. $10,502.60

Credit Suisse First Boston Limited
Agent Bank

APPOINTMENTS

Reorganisation at Royal Bank of Scotland

At THE ROYAL BANK of SCOTLAND GROUP, **Mr Kenneth Thompson**, head of group finance at Glaxo, the pharmaceuticals company, is to become its group finance director, *James Buxton writes*. Mr Thompson's appointment is one of a number of changes which continue the restructuring, begun last year, of the Edinburgh-based organisation into a holding company controlling subsidiaries, which include the Royal Bank itself and Charterhouse, the group's merchant banking arm. Mr Thompson will become one of a four man group executive led by the group chief executive **Mr Charles Winter**. It includes **Mr Rob Farley**, deputy chief executive, and **Dr George Mathewson**, the former chief executive of the Scottish Development Agency, who recently became responsible for strategic development and planning. **Mr Victor Blank**, chief executive of Charterhouse, is to leave the board of the Royal Bank of Scotland but will remain on that of the Royal Bank of Scotland Group. The group said Mr Blank was leaving in order to emphasise the distinction between the group's subsidiaries, and also to reinforce the polarisation between the clearing bank and the merchant bank. Three other directors are leaving the board of the Royal Bank of Scotland while remaining on the group board. Five new non-exectuive dirctors are joining the board of the bank. Mr Thompson, who will join the group board, will become the fourth member of the group.

GENERAL ACCIDENT FIRE AND LIFE ASSURANCE CORPORATION, Perth, has appointed **Mr Wilfred A. Jones** as deputy general manager, General Accident Reinsurance Co; he also becomes marine manager and underwriter of the Corporation and will be responsible for the management of the marine and aviation departments. **Mr John A. Hayton** has been appointed assistant general manager, General Accident Reinsurance Co. **Mr Robert A.P. Burrows** will succeed Mr Hayton as aviation manager.

★

Mr David Holder has been appointed managing director of the ELLIS GROUP UK contracting division. He joined the group in 1980 from Haden International.

★

Mr Brook Land, a partner of Nabarro Nathanson, has been appointed a non-executive director of JACK L. ISRAEL GROUP from January 1.

★

Mr Michael Griffin has been appointed to the board of ENTECON, Camberley. He was general manager.

★

Mr Brian Street has been appointed chairman of the south east regional council of the CONFEDERATION OF BRITISH INDUSTRY. He is chairman of Air Products.

★

Mr P. Britton and **Mr P.L. Crook** have been appointed directors of DOBSON PARK INDUSTRIES from January 1. Mr Britton has executive responsibility for Dobsons Fletcher Sutcliffe Wild Mining Equipment subsidiaries, and succeeds **Mr Jack Shepherd** who retires next February. Mr Crook has responsibility for Dobson's toys and plastics division.

★

Mr David Fletcher and **Mr Michael Quicke** have been appointed managing directors of LEOPOLD JOSEPH & SONS from January 1.

★

Mr Charles M. Fenton, chairman of the BBA Group, and of British Mohair Holdings, has been appointed a non-executive director of BARR & WALLACE ARNOLD TRUST, Leeds, from January 1.

★

Following the SAMUELSON GROUP's agreed acquisition by Eagle Trust, **Mr Robert Black**, operations director of Eagle Trust, has been appointed chief executive of Samuelson. **Mr Martin Baker**, Eagle Trust's finance director, becomes finance director of Samuelson. **Sir John Mayne Sanders** and **Mr Richard Gane** remain on the board.

★

VSEL DEFENCE SYSTEMS CANADA INC., a subsidiary of VSEL Consortium, the UK's largest warship builder, has appointed **Rear Admiral William B. Christie** (RCN ret'd) as president. **Mr Frank Noah**, commercial director of VSEL Consortium, has been appointed chairman. Also joining the board are: **Mr R.J. Daniel**, VSEL director of the Canadian project; **Mr P.G. Cathcart**; **Mr A.C. Peak**, technical director of VSEL Consortium; **Mr J.R. Killick**, a senior vice president of Canadian Marconi; **Mr S.F. Hughes**, chairman of Corporation House, Ottawa; and **Vice Admiral Jock Allan** (RCN ret'd) senior principal with CFN Consultants.

★

Mr Roger Laughton, currently head of BBC TV daytime programming, has been appointed to the new post of director of co-productions for BBC ENTERPRISES, and joins the board. The new post was created following the appointment of **Mr John Reynolds**, previously general manager co-productions, as head of BBC, North America.

★

Mr Richard Buchanan, previously chief sales manager, has been appointed assistant general manager (sales and marketing) of COLONIAL MUTUAL. He is succeeded by **Mr Alan Spriggs**, previously sales manager, recruitment and training.

★

Mr Gordon Prosser, a former director of NatWest Investment Bank, has been appointed a non-executive director of the ARCHWAY GROUP.

★

SIMMONS & SIMMONS has appointed the following as partners from January 1: **Mr Jonathan Mathews** (property); **Mr Richard Allnutt**, **Mr Michael Prosser**, and **Mr Roger Butterworth** (corporate); **Mr John Qualtrough** (planning); **Mr Robert Schon** (tax); **Mr David Sandy** (litigation); and **Mr Rowan Freeland** (intellectual property).

NOTICE OF REDEMPTION AND TERMINATION OF CONVERSION RIGHTS

SUMITOMO CORPORATION

(Sumitomo Shoji Kabushiki Kaisha)

U.S. $70,000,000
2⅞% Convertible Bonds
Due 1999 (the "Bonds")

NOTICE IS HEREBY GIVEN that in accordance with the provision of the Trust Deed dated 9th May, 1984 between Sumitomo Corporation (the "Company") and The Bank of Tokyo Trust Company as Trustee, under which the above-described Bonds were constituted, the Company has elected to exercise its right to, and shall, redeem on 29th January, 1988, all of its outstanding Bonds at a redemption price at 104 per cent. of the principal amount thereof, together with accrued interest to such date of redemption which will amount to U.S. $47.52 per U.S. $5,000 principal amount of the Bonds.

The payment of the redemption price and accrued interest will be made on and after 29th January, 1988 upon presentation and surrender of the Bonds, together with all coupons appertaining thereto maturing subsequent to 29th January, 1988, at the principal office of The Sumitomo Bank, Limited, as the Principal Paying Agent for the Bonds, in London, Temple Court, 11 Queen Victoria Street, London EC4N 4TA, or at the principal office in the city indicated below of any of the following Paying Agents:–

Daiwa Europe Limited, London
The Bank of Tokyo, Ltd., London
The Bank of Tokyo (Luxembourg) S.A., Luxembourg
Banque Nationale de Paris, Paris
Deutsche Bank Aktiengesellschaft, Frankfurt/Main
Morgan Guaranty Trust Company of New York, Brussels
The Sumitomo Bank, Limited, Brussels
Swiss Bank Corporation, Basle

On and after 29th January, 1988, interest on the Bonds will cease to accrue. The Bonds may be converted into shares of common stock of the Company at the conversion price (with Bonds taken at their principal amount translated into Japanese Yen at the rate of ¥225.40 equals U.S. $1) of ¥539.10 per share of common stock. The Company's common stock is issuable only in Units of 1,000 shares of integral multiples thereof. A cash adjustment will be paid for any fraction of a Unit.

Each Bondholder who wishes to convert his Bond should deposit his Bonds, together with all unmatured coupons, with any of the Conversion Agents being the same as the Paying Agents specified above, accompanied by a notice of conversion (the form of which notice is available from any of the Conversion Agents). SUCH CONVERSION RIGHTS WILL TERMINATE AS TO ALL BONDS AT THE CLOSE OF BUSINESS ON 29th JANUARY, 1988.

For the information of the Bondholders, the reported closing price of the common stock of the Company on the Tokyo Stock Exchange for each of the 25 consecutive trading days from 2nd November, 1987 to 4th December, 1987, ranged from a high of ¥940 to a low of ¥865 per share. The reported closing price of such shares on the Tokyo Stock Exchange on 7th December, 1987 was ¥916 per share.

18th December, 1987

SUMITOMO CORPORATION
By: The Sumitomo Bank, Limited
as Principal Paying Agent

Swiss franc sector avoids calm before Christmas

BY OUR EUROMARKETS STAFF

THE SWISS FRANC foreign bond market stood out as an island of new issuing activity yesterday, while primary markets in other international centres settled further into the pre-Christmas lull.

Three new issues totalling SFr197.5m emerged in Switzerland, with a SFr100m bond for **Shell Australia**, led by Union Bank of Switzerland, attracting the most attention.

The 4½ per cent five-year bond, priced at 100½, looked aggressively priced from a technical point of view. But the appeal of Shell's name prevailed over dealers' qualms about its terms, and the bond traded buoyantly in the grey market at less ¼ bid.

Meanwhile, Handelsbank NatWest led a SFr50m seven-year 5⅛ per cent issue for ***Ansett Transport Industries***, the Australian freight and specialised services company, priced at 100½. S.G. Warburg Soditic led a SFr47.5m four-year bond for Copenhagen County Authority with a 4⅞ per cent coupon and par issue price.

Prices of seasoned Swiss franc bonds closed about ¼ percentage point higher amid short-covering. A SFr60m 5¼ per cent 11-year deal for **Oesterreichische Elektrizitaetswirtschafts**, guaranteed by Austria, jumped 1¼ points to 104.

INTERNATIONAL BONDS

Prices of longer-dated Eurodollar bonds closed about ⅜ point higher, encouraged by a firmer US Treasury bond market which was itself helped by lower oil prices.

Retail activity remained thin. But dealers said some US investors who had bought corporate Eurodollar paper, especially in the immediate wake of the October stock market crash, when yield spreads widened out significantly, were now selling paper back into London.

An 8¾ per cent bond, due in 1992, for **Coca-Cola**, which had yielded around 130 basis points more than US Treasury bonds at its worst point, was yielding only 80 basis points more yesterday.

Only about seven – out of about 18 – market makers in the Eurosterling sector were open for business yesterday. Dealers complained that the other houses seemed to have been unofficially closed all week.

Under Association of International Bond Dealers' rules, they should have notified the association if they intended to cease trading with professionals before the close of business today.

The D-Mark Eurobond market was steady in very small turnover. Domestic bond prices were marked about 20 basis points lower in similar low activity. The price of the 6⅜ per cent Federal government bond was fixed at 99.35, 10 basis points below Wednesday's level.

Preliminary West German money supply figures for November showed an 8.2 per cent increase, compared with 7.8 per cent in October, well above the 3 to 6 per cent target range for this year. But dealers said this had no effect on the bond market.

CME increases value of pound futures contract

By Deborah Hargreaves in Chicago

THE CHICAGO Mercantile Exchange moved to boost volume on its British pound futures contract yesterday with a 150 per cent increase in the value of the contract. The CME raised the contract's size – from next year's September contract – from £25,000 to £62,500. With a dollar value of $107,000, this bring British pounds more in line with the CME's other currency futures, which are all valued around $100,000.

The exchange expects the move to increase institutional participation in the contract, which has been trading about 5,000 lots a day. Volume on its other currency contracts is significantly higher with yen futures trading around 20,000 a day and Swiss francs and D-Marks around the 15,000 mark.

BIS proposals backed by swap dealers' group

BY STEPHEN FIDLER, EUROMARKETS CORRESPONDENT

PROPOSALS on bank capital adequacy announced last week by the Bank for International Settlements (BIS) are "more realistic and reasonable" than earlier proposals outlined by the Bank of England and the US Federal Reserve, the International Swap Dealers Association (ISDA) said yesterday.

The association, which groups 80 institutions active in dealing swaps worldwide, said the proposals constituted "an improved framework for assessing the credit risk associated with swaps and related instruments."

However, it said it continued to have reservations about some aspects of the BIS proposals, now open for comment for six months.

The BIS proposed two alternatives for defining the risks on interest rate and currency swaps.

Most of the 12 BIS central banks and ISDA prefer what is called the current exposure method. This involves marking to market, adding a factor for potential future exposure and multiplying the results by a maximum risk weighting of 50 per cent. This weighting compares with the 100 per cent originally proposed by the Bank of England and the Fed.

The alternative – the original exposure method – omits the marking to market and applies credit conversion factors to the notional principal amount of each swap, based on its type and maturity, before multiplying by the 50 per cent weighting.

ISDA said the existence of two options for calculating risk could yield very different results in capital requirements, creating a competitive imbalance. The original exposure method's simplicity was appealing but "has very little theoretical foundation."

Stronger regulatory powers for AIBD

By Clare Pearson

THE ASSOCIATION of International Bond Dealers (AIBD), the Eurobond secondary market body, is to have enhanced powers to expel or suspend members under a "good market behaviour" rule introduced this month.

The rule could mark a significant strengthening of the AIBD's control by providing a standard against which to judge member firms, an official said yesterday.

No members had so far been expelled as the association had lacked a base to exercise its powers of sanction, he added.

The rule is unspecific. It refers to "compliance with the just and equitable principles of business or trade, observance of good market practice and application of standards of professional integrity."

But the AIBD official said this had been preferred to defining specific misdemeanours and the exact interpretation of the rule would evolve by precedent.

The association is thought to have become keener to demonstrate a will to curb manipulative market practices. This is both in response to waning confidence among investors in the Eurobond market, and efforts to strengthen its application to become a designated investment exchange under the UK Financial Services Act.

Mr John Wolters, secretary-general, said in a letter to members circulated yesterday that the AIBD's board was also considering additional sanctions, such as fines and reprimands, for misdemeanours which did not merit suspension or expulsion.

But such measures would involve changes to the AIBD's by-laws and would have to be voted on at its annual meeting next summer. The general market behaviour rule is an addition to an existing rule and comes into effect in the new year.

The AIBD's board has also approved a tightening of the rules on "buy-ins," carried out when a counterparty has failed to deliver bonds to a purchasing firm as promised.

The rules on non-delivery of bonds have come under scrutiny recently, partly because of a legal wrangle, involving several houses, over a C$50m bond for British Columbia Telephone.

The changes call for a house to issue a pre-advice notice, before the issue of the buy-in notice itself, and the buy-in agent must be a reporting dealer in the issue in question under AIBD rules.

It is hoped that this will make the agent less likely to quote the bonds at an unrealistic price. Where a chain of buy-ins takes place, the agent must act for the whole chain.

Separately, Mr Wolters said in his letter the AIBD would be introducing rules next year to make the association's real-time trade matching system, now being developed, compulsory for all reporting dealers and inter-dealer brokers from January 1989.

The system, known as Trax, is designed to enable dealers to spot failed trades immediately. It is expected to come into operation next autumn.

Mediobanca privatisation postponed

By David Lane in Milan

THE PRIVATISATION of Mediobanca, Italy's state-owned investment bank, has been postponed until next year.

The pressure of parliamentary business is the official reason for the delay, although the slide in the Milan stock market has been a big influence.

Mr Luigi Granelli, the Minister of State Investments, who is overseeing the privatisation, will report to three commissions on January 18. It is thought the operation could then obtain the necessary parliamentary approval.

Under the privatisation plan, the three banks of national interest controlled by IRI, the state holding corporation, would reduce their total stake in Mediobanca from 56.9 to 20 per cent.

A group of 17 corporate investors would together acquire a 13.3 per cent stake in the investment bank and the remaining 23.6 per cent would be sold to Italian and foreign investors through a public offer of shares.

Results from the three national interest banks, and particularly those from Banco di Roma, are expected to be disappointing this year.

David Dodwell examines changes to lift futures trading confidence

HK exchange on reformist trail

HONG KONG'S futures exchange yesterday announced sweeping reforms aimed at rebuilding confidence after a collapse eight weeks ago that took it to the brink of bankruptcy and controversially forced closure of the territory's stock exchange.

The reforms include a substantial increase in the net worth required of members of the exchange and will distinguish different types of member, with higher capitalisation being expected of members who want maximum trading freedom.

Speculators – who will not in future be able to disguise their identity behind nominee companies – will be required to provide more financial information about themselves.

There will be closer supervision, constant monitoring of margin requirements, and limits will be imposed on the number of open positions a member can hold, depending on his capitalisation.

Still unresolved is the issue of how trading will be guaranteed. It was the inadequacy of resources backing the existing guarantee corporation that, in technical terms, forced closure of the futures and stock exchanges in October when stock markets declined across the world.

It was capitalised at just HK$22m (US$2.8m) at a time when potential losses of billions of dollars faced futures exchange traders.

The markets reopened after a four-day suspension only after the Government, along with banks and leading stockbroking firms pumped HK$4bn into the Guarantee Corporation to protect it from bankruptcy. In the end, traders' losses totalled about HK$1.8bn.

The Guarantee Corporation is now locked in legal dispute over the recovery of brokers' losses.

Most public attention has been focused on liabilities amounting to about HK$900m linked with Mr Robert Ng, whose family heads the Sino-Land Property Group in Hong Kong. Any settlement reached with Mr Ng is likely to set a precedent for other outstanding disputes.

Ian Hay-Davison: heads securities review committee

Mr Wilfrid Newton, the newly-appointed chairman of the futures exchange, also noted yesterday that the reform package was to some extent an interim move, intended to fill the breach while a government-appointed securities review committee, headed by Mr Ian Hay-Davison (who led an inquiry into Lloyd's of London) completes a thorough examination of the shortcomings of Hong Kong's securities industry.

Mr Newton said: "Mr Hay-Davison agreed that reforms can't await the completion of his report. We recognise that when his committee has completed its report, further changes or refinements may be needed."

In future, three clear categories of traders in Hang Seng index futures contracts – which dominate trade on the exchange – will be defined. These will be general clearing members, who will be able to clear their own trades and those of other exchange members, clearing members, who will be entitled to clear their own trades, and local members, a new category whose members will be restricted to trading on their own account, subject to strict position limits.

The local category has been created mainly for existing brokers who cannot, or choose not to, afford new and higher capitalisation requirements.

For clearing members, net worth will be raised immediately from HK$2m to HK$5m, with an increase to HK$10m at the end of 1988. General clearing members will have to have a net worth of HK$25m. Both categories must have 80 per cent of their net worth in paid-up form.

Mr Newton said genuine industry self-regulation would be enforced, with general clearing members monitoring other brokers who cleared through them.

The mandatory completion of standard risk-disclosure statements is intended to ensure that brokers have sufficient information about their clients, Mr Newton said.

Some of the losses incurred in the recent crash could have been avoided if brokers had been aware of overlapping beneficial ownerships behind nominee companies, and of speculators' use of two-dollar companies domiciled in tax-haven territories.

A second phase of reform is planned for spring next year. This will include the establishment of a new guaranteeing process and a review of new futures contracts. A 90-day interest rate futures contract, initially set to be launched this month, will be introduced within six months, Mr Newton said.

Officials hope this contract will bring greater depth to the futures market, since it is expected to be an almost entirely "professional" market, with banks and financial institutions as the main participants.

Sharp rise in Citroen profits forecast

BY PAUL BETTS IN PARIS

CITROEN, one of the two car divisions of the French Peugeot car group, expects to report a substantial increase in net profit this year following a 14 per cent rise in sales, Mr Jacques Calvet, Peugeot chairman, said yesterday.

Citroen returned to the black last year with a net group profit of FFr589m ($106.7m). Although Mr Calvet gave no detailed estimate of the division's profit this year, he indicated that sales were expected to increase to about FFr38bn.

He also confirmed that the Peugeot group as a whole would show a sharp rise in profits on a sales increase of about 13 per cent. The Peugeot group made net profits of FFr3.6bn in 1986.

Mr Calvet said final profit figures would depend on the level of this year's tax bill. Peugeot has been able to set earlier losses against recent profits, but the group expects to see tax losses increase substantially.

Both the Citroen and Peugeot car divisions consolidated their recovery last year in a particularly strong domestic car market. Citroen has increased its production in France by nearly 25 per cent this year and has lifted its domestic market penetration from 11.6 per cent last year to about 12.6 per cent this year. Citroen's exports have also increased by about 25 per cent.

Citroen's industrial investments rose to FFr4.3bn this year from FFr3.5bn in the year-earlier period. These are expected to rise to FFr4.5bn next year.

Mr Calvet said that overall industrial investments would total about FFr10bn this year.

The chairman said Citroen had continued to enhance overall productivity levels and had reduced its salaried workforce by about 3 per cent, compared with a 6 per cent cut the year before.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on December 17

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Abbey National 7½ 92	200	92⅝	93⅛	+0¼	+0⅛	9.64
All Nippon Air 9⅞ 97	100	93	93½	+1¼	+0⅞	10.51
American Brands 8⅞ 92	150	96¾	97¼	+0½	+0⅜	9.69
A/S Eksportfinans 7⅝ 93	100	90⅞	91⅜	+0⅜	-0⅛	9.64
A/S Eksportfinans 7¾ 92	150	92½	93	+0⅛	-0¼	9.49
Barc. Bk. Fin. 10¼ 89	200	†102⅝	102⅞	+0¼	+0¼	8.26
Belgium 9⅛ 92	400	98¾	99	+0⅜	-0¼	9.48
British Telecom 7⅝ 96	250	85⅝	86⅛	+0⅜	+0⅛	10.11
British Telecom 8⅞ 94	150	†96¾	96⅞	-0⅛	+1	9.56
Canada 9 96	1000	96⅞	97⅛	0	+0⅝	9.55
Canadian Pac 10¾ 93	100	†102⅞	103¼	+0½	+2⅛	9.92
C.C.C.E 7⅞ 93	115	93⅝	94⅛	+0⅜	+0¼	9.07
C.N.C.A 7¼ 91	150	93	93½	+0⅜	+0¼	9.34
Coca-Cola Ent. 8¼ 90	100	†98⅞	99⅜	+0½	+0⅜	8.60
Credit Lyonnais 9 91	200	99⅝	100	+0⅛	0	9.12
Credit National 7⅜ 92	100	93⅜	93⅞	+0¼	+0½	9.20
Credit National 7¾ 91	150	93⅞	94⅛	+0¼	-0⅛	9.15
Denmark 7⅛ 92	500	91½	92	+0¼	+0⅜	9.58
Denmark 8¼ 91	300	97	97½	+0⅜	+0¼	9.16
E.E.C 7 91	100	93⅜	93⅞	+0⅜	+0⅜	8.98
E.E.C. 7¼ 93	250	91⅜	91⅞	+0½	+0½	9.34
E.E.C 8¼ 96	100	90	90½	+0½	+0⅛	9.99
E.I.B. 7⅝ 93	100	91½	92	+0⅜	+0⅜	9.49
E.I.B. 9⅝ 97	150	95⅞	96⅜	+0¼	-0¼	10.00
Finland 7⅞ 97	200	86⅝	87⅛	0	-0⅛	10.14
Finland 7½ 93	200	90⅞	91⅜	+0⅜	0	9.57
Ford Motor Cred 11⅞ 90	100	105⅛	105⅝	+0⅛	+0⅜	8.52
Gen Elec Credit 10¼ 00	200	†	—	—	—	—
G.M.A.C. 8 89	250	98⅝	99⅛	+0¼	+0⅛	8.70
G.M.A.C. 8¼ 89	200	99¾	100⅜	+0¼	+0⅛	8.19
Hoesch 8¼ 97	100	†88¼	88¾	+0¼	-1	10.21
Hoesch 7⅜ 92	100	†95¼	95¾	+0⅛	+0⅜	8.66
Hoesch 7⅞ 94	300	†92¾	93¼	+0¼	+0⅜	9.39
Liberty Mutual 8½ 96	150	†90	90½	+0½	-0⅛	10.25
L.T.C.B of Japan 8 91	100	96	96½	+0½	+0¼	9.23
L.T.C.B. of Japan 8 97	200	85⅝	86⅛	+0⅜	+1	10.48
Mercds-Benz Cred 8¼ 92	100	98⅜	98⅞	+0½	-0⅜	8.64
Mitsubishi Fin. 7⅞ 93	100	90⅛	90⅝	+0⅜	+0⅞	10.09
Mutual America 7⅝ 92	100	†93¼	93¾	+0¼	+0¼	9.63
Norway 7¼ 91	500	94¼	94¾	+0¼	-0⅛	9.05
Pepsico Inc 7⅜ 93	200	90⅞	91⅜	+0⅜	-0⅛	9.53
Prudential Crp. 8¾ 94	125	95⅜	95⅞	+0¼	+0⅜	9.69
Qantas Airways 10⅜ 95	140	101⅜	101⅞	+0⅜	+0⅞	10.03
Rep. of Italy 9 90	1000	100½	101	+0¼	+0⅜	8.66
Saab Scania 9½ 91	125	101⅝	102⅛	+0⅜	+0½	8.77
Saskatchewan 10¾ 92	100	104½	105	+0½	+0½	9.31
State Bk S Aust 9¼ 93	100	98	98⅜	+0⅜	+0¾	9.71
Swedish Expt.Crd.7¼ 91	100	93⅝	94⅛	+0½	+0⅜	9.15
Swed Exp Cred 10 92	100	103¼	103¾	+0⅜	+0½	8.98
Sweden 7 91	250	93½	94	+0⅛	0	9.00
Sweden 7 92	250	92⅞	93⅜	+0⅜	+0⅛	9.04
Sweden 8¾ 96	200	93⅛	93⅝	+0¼	+0⅛	9.95
Sweden 8½ 92	200	†97	97½	+0½	-0⅜	9.23
Taiyo Finance 7¾ 94	100	88⅞	89⅜	+0⅜	+0⅛	10.25
Toyota Mtr.Cred.7⅞ 92	150	91¾	92¼	+0⅜	+0⅛	9.55
Victorian Rep 11⅝ 92	150	106¾	107¼	+0⅜	+0⅞	9.56
World Bank 7 92	300	†93¼	93⅞	+0¼	+0⅝	8.98
World Bank 9 97	300	94	94½	+0⅜	+0⅛	9.94
Yasuda Trust Fin 8½ 93	100	93⅝	94⅛	+0⅜	+0½	9.97

Average price change... On day +0¼ on week +0¼

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Arab Banking 5½ 92	150	97⅝	98⅛	0	0	6.04
Avis Fin.SVS 5⅞ 92	100	†99⅞	100¼	0	-0¼	5.87
Bank of Greece 6½ 95	150	98	98½	+0⅛	+0⅛	6.77
Bank of Tokyo 5¾ 93	100	†103	103½	0	-0⅛	5.02
Central Bk. Turkey 7 92	200	†102	103	0	0	6.37
Degussa Int. 6⅛ 97	200	96⅞	97⅜	+0⅛	+0¼	6.55
E.I.B 5½ 98	150	93⅛	93⅝	+0⅛	-0⅛	6.37
E.I.B 6 97	300	97⅞	98⅜	0	-0⅛	6.25
E.I.B. 6⅛ 96	300	98⅞	99⅜	+0¼	-0⅛	6.23
E.I.B. 6⅛ 97	400	98⅞	99⅜	-0¼	-0⅛	6.23
E.I.B. 6⅞ 95	300	103⅞	104⅜	+0⅛	+0¼	6.18
Euro.Coal& Steel 5⅞ 97	175	95⅞	96⅜	-0¼	-0⅞	6.46
Eurofima 6¼ 96	100	100⅞	101⅜	+0⅛	-0¼	6.09
Elec De France 5¾ 97	300	95	95½	0	0	6.41
I.A.D.B. 6 97	200	96⅞	97⅜	+0¼	-0⅛	6.43
IBJ 5⅞ 92	100	†102½	103	0	0	5.21
Japan Finance 5¾ 97	100	94⅝	95⅛	-0¼	-0¼	6.52
Ireland 6½ 97	300	†98⅞	99⅛	+0⅛	-0⅛	6.66
Korea Dev BK 6⅛ 93	100	100⅞	101⅜	+0¼	+0⅛	6.45
Malaysia 6 – ¼ 94	150	97½	98	0	0	6.68
Oesters.Kont.BK 5⅝ 92	200	†101⅞	102¼	0	-0¼	5.14
Portugal 5⅞ 92	150	101⅞	102⅜	+0¼	+1⅛	5.18
Portugal 6⅝ 95	150	102¼	103	+0⅛	+0¼	6.18
Royal Insurance 5⅜ 92	300	†101	101½	-0⅛	-0⅛	5.16
Statoil 6¼ 97	200	†96½	97	0	0	6.73
Soc Cent Nuclear 7¼ 95	150	103⅞	104⅜	+0⅛	+1⅛	6.55
Stevweg 5½ 96	100	96	96½	-0⅛	+1⅛	6.06
Tokyo Elec. Power 6 97	300	†97	97⅞	0	-0⅛	6.40
World BK. 6¼ 97	600	99¾	100	+0¼	-0¼	6.26

Average price change... On day +0⅛ on week 0

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
African Dev.Bk. 5⅝ 96	100	†97½	98	-0⅛	-0½	5.96
Asfinag 5 02	150	†98	98¼	0	+0¼	5.18
Bayer W/W 2½ 02	250	†94¾	95	-0⅛	-1⅛	2.94
BBL W/W 2⅞ 97	100	†81½	82½	-0⅛	+1¼	5.18
Elec.De France 5 07	200	†98¼	98½	+0⅛	+0¼	5.13
E.I.B. 4¾ 97	200	†98½	99	0	+0¼	4.91
E.I.B 4⅞ 97	200	†98	98½	-0⅛	-0⅛	4.86
Enso Gutzeit 5 99	100	†98¼	98¾	+0⅜	+0⅛	5.17
Ireland 5 02	150	†92	92½	0	+0⅛	5.81
Newfoundland 5⅛ 02	150	†99¾	100	+0⅛	+0¼	5.13
Polly Peck 6 92	75	†97	98	0	+0½	6.70
Prov.of Manitoba 4¾ 02	200	†100	100¼	0	0	4.73
Prov. of Quebec 5 03	200	†98¼	98½	-0¼	-0⅛	5.15
Qantas Airways 4¾ 97	110	†93¾	94¼	+0¼	+0⅛	5.56
SHV Holdings 4¾ 94	100	*†99½	100	0	0	4.79
Tiroler 4¾ 97	100	†100	100½	0	+0⅛	4.71
TNT 5 95	100	†99½	99¾	-0⅛	-0⅛	5.06
Woolwich B/S 4½ 92	120	†97½	98	-0⅛	+0½	5.04
World Bank 5 02	200	†95¼	95½	0	+0⅛	5.46

Average price change... On day 0 on week +0

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Belgium 4⅝ 94	45	96⅛	96½	+0⅛	0	5.32
E.I.B 4⅝ 94	40	96⅜	96⅞	+0⅛	0	5.25
Elec. De France 5⅛ 94	20	99⅜	99⅝	+0⅛	+0⅛	5.21
Kansai Electric 4⅝ 94	60	95⅛	95⅞	0	+0⅛	5.45
Norway 4¼ 92	60	97¼	97⅝	0	0	4.96
Rep. of Italy 5⅞ 92	150	102⅞	103⅛	-0⅛	0	4.93
Sweden 4⅝ 92	50	97⅝	98	-0⅛	+0¼	4.93
World Bank 5½ 92	50	102⅞	103⅛	+0⅛	+0¼	4.80

Average price change... On day 0 on week +0⅛

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Aegon 5¾ 91 FL	100	100⅛	100⅝	+0¼	+0⅛	5.63
Aegon 8¼ 89 FL	100	103	103½	+0⅛	-0⅛	5.85
Air Products 6¾ 91 FL	100	100¾	101⅛	-0⅛	-0⅛	6.38
Alg. Bk. Ned. 5¾ 91 FL	100	100⅛	100⅝	-0⅛	+0¼	5.63
Alg. Bk. Ned. 7¾ 89 FL	150	103	103½	0	-0⅛	5.79
Alg. Bk. Ned. 8 89 FL	200	102¾	103	0	0	5.43
Barc. Bk. 10⅛ 97 £	250	96¾	97¼	+0½	-1	10.75
BP Capital 13¾ 92 A$	75	100⅝	101	+0⅛	0	13.50
Creditanstalt 14⅛ 90	60	†101⅞	101⅞	+0¼	+0⅛	13.21
Denmark 7¾ 92 ECU	100	100⅜	100⅞	+0⅜	+0⅜	7.56
DG Fin. Co. 13¾ 90 A$	50	†103½	104½	-1	-0⅜	11.88
DG Fin. Co. 14 90 A$	75	†101½	102½	-0⅛	+0½	12.97
DG Finance 14⅛ 92 A$	50	†102	103	+0½	+1	13.51
Deutsche Bank 9⅞ 97 £	75	†98¼	98¾	+0½	-0¼	10.11
Deutsche Bk.14¼ 92 A$	100	†103	103½	+0½	+0⅜	13.15
Dresdner Fin.13⅞ 91 A$	100	†100¾	101¼	0	0	13.41
Electrolux 8 89 FL	60	102½	103¼	-0¼	-0¼	5.65
E.I.B 8⅝ 93 LF	1000	†101¼	101¾	-1⅛	-1¼	8.24
Euratom 7⅝ 97 ECU	145	92½	93	+0½	+0⅜	8.52
Euratom 11½ 88 FL	150	102½	103⅛	0	-0⅜	0.05
Eurofima 7½ 92 FL	50	104	104¾	+0⅛	-0¼	6.31
Eurofima 17½ 89 NZ$	50	†101¼	101¾	0	+0⅜	16.46
Finland 6 91 FL	100	99¾	100⅛	+0⅛	0	6.00
Ford.Mtr.Cred.13¾ 91A$	75	98½	99⅛	0	+0¼	14.14
G.M.A.C. 9 92 £	50	99½	100	+0⅜	-0⅜	9.04
G.M.A.C. 9¼ 92 C$	75	95½	96	+0¼	+0¾	10.47
G.M.A.C Aus.Fin.14 90 A$	50	100⅝	101⅛	+0⅜	+0⅛	13.47
Halifax BS 10⅜ 97 £	100	97¾	98⅛	-0⅛	-1⅜	10.71
Honda Mtr.W/W 3⅞ 90 FL	100	†107	109	0	-0½	0.31
Hunter Dgas. N.V. 7 91 FL	50	101	101⅝	-0⅛	-0⅛	6.54
Imp Chem Inds 10 03 £	100	93½	94	+0½	-1⅜	10.84
Inv.In Ind.Intl 10 93 £	60	100⅛	100⅝	+0⅜	-0⅜	9.88
Lease Pla. Ned. 6 91 FL	50	†98	99	0	-0¼	6.44
Leeds B.S 10½ 91 £	50	101¼	101¾	+0⅜	-0½	9.90
Mort.Bk.Denmark 6 91 FL	150	99¼	99⅞	0	+0⅛	6.14
Mtge. Bk. De. 6¾ 91 FL	100	101½	102¼	+0¼	+0⅜	6.08
Nat.Australia 14 92 A$	50	101⅝	102⅛	+0¼	+0¼	-0.27
Nat. West.Bk.13⅞ 92 A$	50	†99⅝	100⅛	+0¼	+0⅜	13.15
Nationwide BS 10⅛ 93 £	75	100	100½	+0⅜	-0¼	10.03
New Zealand 7¾ 93 ECU	200	98	98½	+0½	+1	8.16
Oesters.Ktbk.13⅝ 94 A$	75	101⅞	102⅜	+0⅜	+0⅞	13.09
Prudential Fin.9⅝ 07 £	150	†86⅜	86⅞	+0⅜	-2⅜	11.06
S.D.R. 7⅝ 95 ECU	90	97	97½	+0¼	+0⅝	8.26
Tsthouse Forte 11⅞ 90£	50	†103	103½	+0⅛	-0⅛	9.43
Thyssen 7¼ 90 FL	50	102½	103¼	+0⅛	+0¼	6.05
Wessanen 6¾ 90 FL	50	101⅞	102½	-0⅛	0	5.89
World Bank 13⅝ 92 A$	100	†100⅝	101⅛	+0¼	+0⅜	13.05

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn
Alberta 3 93	.0312	99.98	100.08	13/06	8.17
Alliance & Leic.Bld 94 £	.08	99.10	99.15	21/01	10.27
Belgium 97	0	100.10	100.20	19/02	7.19
Britannia 5 93 £	0⅛	99.57	99.62	8/01	10.37
Chase Manhattan Corp 91	0¼	98.98	99.23	22/02	7.19
Citicorp 98	+0¼	96.75	97.00	29/02	7.69
EEC 3 92 DM	+0	100.47	100.52	22/02	4.31
Halifax BS £ 94	.1	99.37	99.42	8/02	8.97
Inst. In Industry £ 94	0	97.94	98.04	24/02	9.44
Midland Bank 01 £	.1	96.06	96.26	11/02	8.97
Milk Mkt.Brd. 5 93£	0⅛	99.33	99.38	30/12	10.37
New Zealand 5 97 £	.07	99.28	99.38	18/02	9.06
New Zealand 5 01	0	98.66	98.76	4/02	7⅛
Shearson Lehman Hlds 91	+0¼	98.87	99.37	8/02	7.62
United Kingdom 5 92	0	100.11	100.17	7/01	8.19
Woodside Fin. 5¼ 97	0	98.70	98.80	28/01	7.69
Woolwich 5 95 £	0⅛	99.22	99.27	19/02	9.12

Average price change... On day 0.00 on week +0.00

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
Alcan 6¾ 02	8/87	62	97	98¼	+1⅜	23.53
Alco Health 6¾ 01	7/86	26.25	68¾	70¼	-2	28.03
American Brands 7¾ 02	9/87	56.7	94⅝	95⅜	+1⅛	23.62
American Can Co. 5½ 02	4/87	66.75	62	63	0	77.53
Ashikaga Bank 2⅛ 02	4/87	967	112⅝	114½	-0⅜	-2.25
Asics 5 92 DM	12/85	438.6	147¼	148¾	+6	2.58
CBS. Inc. 5 02	4/87	200	86⅝	87⅝	-0⅜	15.11
Fuji Hvy Inds 3 00	†8/85	676	154½	155½	+1	2.45
Fujitsu 3 99	†5/84	1106	189	190	+1¼	1.23
Gunma Bank 2⅛ 02	4/87	808	134⅛	135⅞	-0⅜	-0.83
MCA INC 5½ 02 US	9/87	69.62	68⅝	69⅝	+1¼	37.75
Minolta Camera 2¼ 94DM	2/86	1004	86⅞	88⅞	+0⅛	42.04
Mitsui trust 2⅞ 01	10/86	1908	130½	132½	+0½	-1.44
Next PLC 5⅞ 03 £	11/87	4.3	102⅝	103⅝	0	55.21
Nippon Elec 2⅞ 00	†1/85	1295	290	291	+3	1.15
Oki Elec Ind 3½ 99	*10/84	805	164	166	0	-4.88
Omron Tateisi 2⅞ 02	4/87	1310	174⅜	176	+3⅝	9.39
Redland 7¼ 02 £	1/87	5.4	88⅝	89⅝	+0¼	19.98
Yokohama Bank of 2⅞ 01	10/86	1014	169	170	0	0.04
W.R. Grace 6¼ 02 US	9/87	42.12	74⅝	76⅛	+2⅞	29.23

* No information available-previous day's price

† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡three-month; §above mean rate) for US dollars. C.cpn=The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv date=First date of conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

FULL YEAR PROFITS UP 24% TO £456M

Grand Met weighs up Martell bid

BY LISA WOOD

Grand Metropolitan, the UK drinks and hotel group, is examining ways by which it can make a full bid for **Martell** the French Cognac House in which Seagram has announced a majority control.

The news coincided yesterday with Grand Metropolitan's full year results showing pre-tax profits of £456.1m, an increase of 24 per cent on last year's £367.7m. The announcement of a possible bid was made at Martell's annual meeting.

Second half profits of £288.4m showed an increase of 28 per cent on the corresponding period with an improved contribution from Inter-Continental Hotels and a strong performance from IDV, the wines and spirits business which acquired Hueblein earlier this year.

The adverse exchange rate of the US dollar knocked profits by a theoretical £20m. Extraordinary profits of £127.8m were generated in the year following the disposal of businesses considered to be non strategic.1

Earnings per share increased by 21 per cent from 32.1p to 38.9p. The final dividend rises 20 per cent to 7.5p making 12p (10.25p) for the year.

Grand Metropolitan's IDV wine and spirits subsidiary made a trading profit for the year of £222.3m (£147.2m).Hueblein contributed turnover and trading profit in 1987 of £536.1m and £59.9m respectively with a net contribution after financing costs of £25m. Smirnoff, a major Hueblein brand, and other IDV brands including J&B Rare, Baileys Irish Cream and Malibu all showed improved growth.

In the brewing division beer volume increased by 4.5 per cent in a static marketplace and produced a trading profit of £100.4m (£90.3m). Sales of lager, with brands including Foster's and Budweiser, accounted for 55 per cent of the beer volume with an increase in sales of ale assisted by Ruddles, the real ale brand.

UK Consumer Services contributed a trading profit of £79.1m (£67.7m). Retailing in public houses and outlets such as Chef & Brewer hotels showed a growth in trading profits. Trading profits of Mecca Bookmakers " did not meet expectations, because of reduced industry margins in the second half year."

Express Foods reported a 13 per cent increase in trading profits despite of the decline in doorstep liquid milk sales, reduced prices and margins for cheese products and the effects of the cuts in UK milk production. Eden Vale and Express Foods in Ireland made good contributions.

The Inter-Continental Hotels chain, whose problems were addressed last year, produced improved results with trading profits of £37.9m in the full year(£30.4m) and £27.6m in the second half – a 41 per cent increase on the same period last year. Two new hotels were opened in 1987 with five scheduled for this year.

The US Consumer Products division was restructured in 1987. and continuing businesses contributed a trading profit of £67.8m (£58.8m) with Pearle, the eyecare business, showing strong growth.

Allen Sheppard, chairman of Grand Metropolitan

See Martell, page 22
See Lex

Legrand withdraws bid for MK

By David Waller

MK Electric's fate seems sealed after Legrand, the French electricals company, yesterday dropped its 660p offer for MK in the face of the 700p agreed bid from RTZ.

Legrand said that it considered its £255m offer to be full and generous that it did not intend to top RTZ's offer, worth £262.8m in cash with a loan note alternative. RTZ's first bid of £206.5m was rejected out of hand by MK's management.

Meanwhile, the mining and industrial conglomerate bought a further 10.92 per cent of MK's shares at the offer price, taking its total holding to more than 35 per cent. Legrand still holds 9 per cent of MK, bought at around 660p.

MK's shares closed at 703p, reflecting the faintest of hopes for a counter-bid from another party.

Midsummer

Midsummer Leisure lost £40,000 on its investment in Boddington shares, not £40m as reported in yesterday's FT.

LMS surges to over £7m

A £3M surge in pre-tax profits to £7.23m was reported by **London Merchant Securities** for the half year ended September 30 1987. The group's activities cover property, leisure and energy.

During the period net rental income rose to £8.8m (£7.42m), oil and gas returned a profit of £613,000 (loss £822,000), leisure contributed £1.11m (£572,000), property trading £374,000 (other loss £234,000), and investment income £684,000 (£1.12m).

Lord Rayne, chairman, said the £40m cash purchase of the Church Commissioners' interest in the Cartwright Estate brought a major part of the group's property holdings into its full ownership. Net assets have increased but the short term revenue effect of the expenditure would be to curtail profits for the second half.

The chairman said the increase in rentals reflected the continuing upward trend, new lettings of refurbished office space and the first contribution from recent investments in retail shops.

Turnround in gas and oil stemmed mainly from the rise in oil prices over last year. Energy interests are held through Carless Capel & Leonard, 27.44 per cent owned.

Profits of First Leisure (28.52 per cent held) reflected good performance in all divisions in what is traditionally the less profitable period.

After tax £2.35m (£1.63m), minorities £759,000 (£1.02m) and pre-acquisition profits £401,000, the attributable profit came to £3.72m (£1.57m) for earnings of 2.33p (0.98p) per share. The interim dividend is again 0.8p.

Audio Fidelity profits boost

BY STEVEN BUTLER

Audio Fidelity, the speaker, book and novelty electronics company, produced a nearly four-fold rise in pre-tax profits on a merger accounting basis, from £129,000 to £610,000, in the year to the end of June, following the effective reverse takeover of the company by the Fanfare Group, which was announced in February. Sales rose from £3,445m to £5,908m.

Earnings per share rose from 2.1p to 11.6p (from 1.7p to 8.9p after discontinued activities), with a dividend declared at 0.5p per shares. Audio Fidelity shares yesterday rose from 76p to 82p.

The bulk of the improvement appears to come from the Fanfare side of the business, which has expanded rapidly in two product areas, Fanfare Books, which includes the "In the Bag Collection" of gift books, and Fanfare Electronics, which includes specialty electronics such as pocket currency exchange and calorie calculators.

These businesses, which comprise the consumer product division of the group, produced pretax profits of £402,000.

Profits in the continuing activities of the audio division reached £343,000, which compare roughly to £200,000 in a 14 month period of the previous year.

The year-on-year comparison of growth in profits for continuing activities was from £185,000 to £745,000, while 1987 losses in discontinued activities reached £135,000.

Mr Stephen Goldberg, chairman, said the improved results in the audio division came from better demand and improved marketing efforts, and that these would continue to boost sales

Bond Corp. stake in Allied now exceeds 5%

By Lisa Wood

MR ALAN Bond's Bond Corporation has increased its stake in Allied Lyons, the UK brewing and food group to just over 5 per cent, Allied Lyons disclosed yesterday.

Last month Allied revealed that Bond Corporation had gradually built up a 2.8 per cent stake in the business. Allied said it was currently 5.01, representing 36.5m of its shares.

Mr Clifford Hatch, Allied's finance director said yesterday: " Mr Bond's shareholding is now at a point where it is incumbent for us to have a conversation with him to determine his motives." Mr Hatch said he knew nothing at present about Mr Bond's motives. He might wish to make a full bid, use his stake to negotiate with Allied over something he wanted or be a long term shareholder.

Bond Corporation and Allied have had a close tradingrelationship over Bond's Castlemaine xxxx beer brand, which Allied brews in the UK under licence and its subsidiary Hiram Wallker brews in Canada. In addition Allied is the UK agent for Bond's Swann lagers in the UK.

Allied which last year successfully fought off a £1.8bn leveraged bid proposal from Elders IXL, the Australian brewing, pastoral and financial services group, has to date said that it viewed Bond's purchases as supportative.

Bond Corporation is understood to have bought its 2.8 per cent stake at an average of some £4.40, on which it is now showing a substantial loss.

Mr John Dunsmore, of Wood Mackenzie, the stockbroker, said: "I Believe it is in Bond's interests to jack-up Allied's share price as it is sitting on a substantial book loss. This is more bluff tactics than a prelude to a bid. "

BP increases holding in Britoil to 24.9%

British Petroleum moved decisively into the market for **Britoil** shares yesterday, buying 50m shares at 450p to push its stake up to 24.9 per cent.

This is the maximum allowed under Takeover Panel rules without a pause. BP has said that it wants to obtain 29.9 per cent of Britoil, the most it may hold without making a full bid for the company.

After BP's purchase, the share price fell back, ending the day at 422p, 16p higher than at the close on Wednesday.

It is generally thought that BP wants to make a full bid, but will not do so until the Government gives a clearer indication as how it will use its "golden share".

This share, created when The British National Oil Corporation was sold into the private sector gived the Government 51 per cent of the sharholders' votes in the event of a change of ownership.

The market was yesterday waiting for the next move by Atlantic Richfield of the US which has built up a 7.4 per cent stake in Britoil and has signalled its intention to bid against BP if it decides to try to obtain outright control of the company.

Arco still has an outstanding tender for 29.9 per cent of Britoil at 350p, but this was immediately outbid by BP, which said that it would buy shares at a higher price.

Arco agreed last week that it would make over its oil assets to Britoil in exchange for a further 20 per cent of the equity.

However the Takeover Panel has told its advisers that under its rules Arco would have to launch a full bid as soon as it obtained more than 30 per cent.

Moreover under Takeover rules, a waiver against this obligation would not normally be given when the two companies had been talking about an asset swap.

Burmah buys ICI petrol sites

BY LUCY KELLAWAY

Burmah Oil announced yesterday that it had bought from ICI its UK petrol business for £21m, which will increase its share of the retail market to between 4 and 5 per cent.

The business consists of 300 dealer owned sites trading under the ICI brand name and based in the North of England and Scotland, as well as several fuel distributors. Burmah said the acquisition fitted well with its existing business, and would increase the number of its outlets to about 1,500.

Mr Lawrence Urquhart, Burmah's managing director, said the acquisition would provide "a valuable source of UK earnings", and will go some way to correct Burmah's tax imbalance in the UK.

He said the company was commited to the marketing of fuels, and expansion in the area would continue.

At the same time Burmah announced a long term supply agreement with ICI for 600,000 tonnes of petrol produced by ICI. Burmah said this would underpin its future supply, for which it now depends on the major oil companies.

The new sights are to be changed to the Burmah and Major brand names starting in the New Year.

Firth makes £0.7m provision

BY PHILIP COGGAN

G M Firth (Holdings), the industrial group, yesterday became one of the first non-financial services companies to make a provision for the effects of the stock market crash.

The company's half year ended on September 30, before Black Monday, but the subsequent fall in the value of its investments has caused the company to make an exceptional provision of £656,000.

However, in July, the company sold a 25 per cent stake in the engineering equipment manufacturer Porter Chadburn and the resultant profit over book value is shown as an extraordinary credit, below the line of £1.49m.

Following that sale, G M Firth's stake has fallen below 50 per cent and in future Porter Chadburn's profits will be treated as an associated company. Profits at Porter Chadburn were considerably reduced but new management has been installed and Porter's recent acquisition of Tasco Distributors should result in much improved profitability in the second half.

Despite the exceptional provision, G M Firth's interim pre-tax profits were still ahead by 13 per cent to £1.63m (£1.45m). The steel stockholding division improved profits by 18.4 per cent and the property and investment division made a "significant" first half contribution.

However, the recession in the marine industry has hit orders at the furnishing, floorings and fittings division. Turnover fell by 30 per cent in the first half and profits were much reduced. Profits in the transport division were also lower than last year.

After tax of £555,000 (£412,000) and minorities of £24,000 (£143,000), earnings per share were nearly 15 per cent higher at 3.12p (2.72p). The interim dividend is being maintained at 1.5p.

Mr Ian Wasserman, the chairman, is confident for the future. Profits in the steel stockholding division were at record levels in October and November and the prospects for the second half in the furnishing division are more promising.

Watson & Philip advances 59% to £2.63m

A strong performance throughout the group's divisions resulted in Watson & Philip posting a 59 per cent increase in taxable profits to £2.63m in the 12 months to end-October.

Turnover of the Dundee-based food distributor rose 26 per cent from £149.65m to £188.94m. The directors said that as overall trading expectations for the coming year were good, with first results suggesting worthwhile contributions from recent acquisitions, the group could anticipate further progress. Further expansion through acquisition would also be sought, they added.

The pre-tax figure was arrived at after charging £86,000 (£106,000) to other net expenditure, interest payable of £12,000 (£140,000), costs of surplus properties of £70,000 (£133,000) and an exceptional debit of £86,000 (nil).

Tax took £976,000 against £681,000 last time leaving earnings per 10p share of 12.6p (10.2p). The final dividend is set at 5.7p making 8p (6.8p) for the year.

The delivered grocery and retail division showed profits of £519,000 (£477,000) and, according to the directors, had a good year considering the continual increase in competition from the multiples. Marketing activities led to increased demands on the printing operation; this had moved to a new site in Dundee where the improved facilities would enhance the profit and service contribution from the division.

The cash and carry side contributed £1.74m against £1.09m with the help of Smalleys, acquired in November 1986, which had fulfilled best expectations.

Catering operations made profits of £507,000 (£340,000). The directors said that the acquisition of Turner Brothers would enable the group to extend and develop its activities in the north of England.

Hawtin climbs to £431,000

Hawtin, manufacturer and distributor of protective clothing, pushed up its profit from £356,000 to £431,000 in the year ended September 30 1987, after a loss of £99,000 at midterm.

Turnover rose from £20.63m to £21.76m. In manufacturing the progress of Gul wet suits continued. Losses at Stewart Singlam were arrested although it incurred a substantial deficit for the year.

Profitability was restored in October and November, and the new management was confident a profit would be made this year.

Rationalisation of the industrial clothing division continued with the closure of the Eire subsidiary. All the companies in the distribution side traded satisfactorily and further progress was expected this year.

Earnings for the year were 0.36p (0.82p) and the dividend is held at 0.375p.

Victoria Carpet

Outlook for **Victoria Carpet Holdings** remained favourable, and the dividend for the year to March 31 1988 was likely to be increased over the previous 2.75p.

This was stated by the directors in their interim report. That showed first half turnover up from £15m to £15.99m and the pre-tax profit ahead from £561,000 to £701,000.

There was sustained demand in Australia and sales and profit were satisfactory. However, caution had to be exporessed over exchange rates.

In the UK trade continued strong. Enthusiasm for the company's products was still being experienced.

Hawker options

Options on the shares of **Hawker Siddeley** began trading yesterday on the London Traded Options Market. Options on 57 companies are now tradeable, as well as three gilts, two currencies and the FT-SE 100 index.

Cifer well ahead despite sharp fall in second half

SECOND HALF profits at **Cifer**, USM-quoted supplier of computer terminals and microcomputers, were well down at £4,700 against £36,800, but for the year to September 30 1987 the company anounced a surge in taxable profits from £41,800 to £230,700.

At the halfway stage Mr Oliver Newland, the chairman, warned that the business had become more seasonal and that it would be wrong to expect the same growth in the second six months. In the event, he said that the second half had proved to be a difficult trading period during which the company had done well to trade profitably and not erode first half profits.

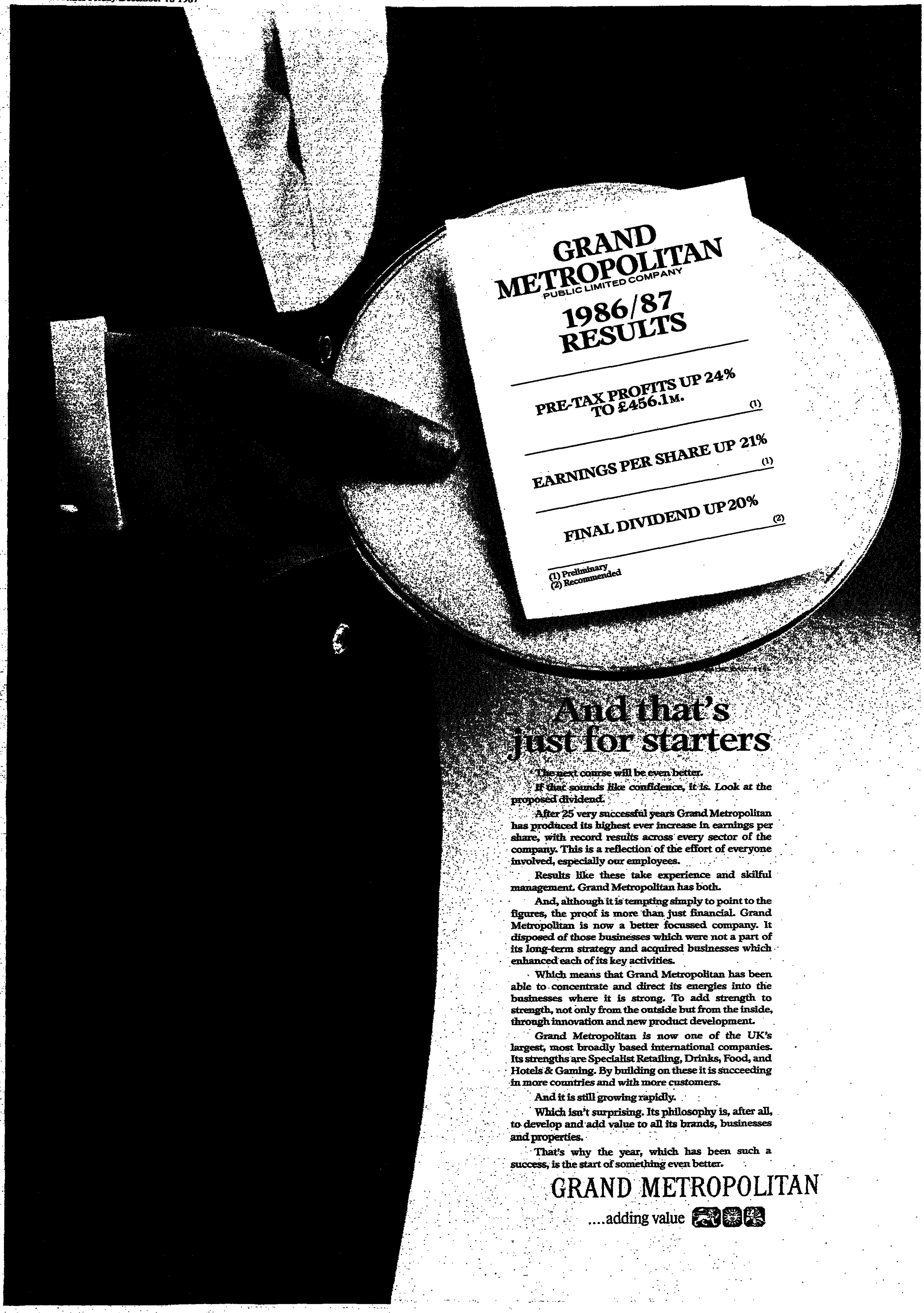
Turnover for the year fell from £5.14m to £4.29m, but operating profits came out ahead at £578,600 (£477,600). Interest and similar charges took a lower £347,900 (£435,800). Earnings per 10p share worked through at 1.47p (2.25p losses) and last time there was an extraordinary £396,800 debit.

The chairman added that the emergency loans totalling £425,000 had been repaid. During the past two years the company's borrowings had been reduced by £1m and the further elimination of debt remained a priority.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres-ponding div	Total for year	Total last year
Alm Group ...int	2.2	Apr 5	1.9	-	6
Audio Fidelity ...fin	0.5	-	-	0.5	-
Bankers Inv Tst ...fin	0.52	Feb 29	0.53*	1.6‡	1.43*
Firth (GM) ...int	0.5	Apr 7	0.5	-	1
Grand Met ...fin	7.5	Apr 11	6.25	12	10.25
Halma ...int	0.63	Feb 5	0.52*	–	1.36*
Hawtin ...fin	0.38	-	0.38	0.38	0.38
London Merchant .int	0.8	Feb 6	0.8	-	2.8
Macarthy ...fin	7	Apr 6	4	11.5	13.5★
MS Intl ...int	0.75†	Feb 6	0.5	-	2
Nash Inds ...fin	1.5	-	1	2.5†	1.5
Quest Group ...int	0.5	April 1	-	-	0.91*
Watson & Philip ...fin	5.7†	-	4.8	8	6.8
Wheway ...fin	0.5	-	0.5	0.65†	0.5

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. ♠Unquoted stock. ♥Third market.★For 17 months. ‡ Miminum total of 1.72p forecast for current year.


GRAND
METROPOLITAN
PUBLIC LIMITED COMPANY
1986/87
RESULTS
PRE-TAX PROFITS UP 24% TO £456.1M. (1)
EARNINGS PER SHARE UP 21% (1)
FINAL DIVIDEND UP 20% (2)
(1) Preliminary
(2) Recommended
And that's just for starters
The next course will be even better.
If that sounds like confidence, it is. Look at the proposed dividend.
After 25 very successful years Grand Metropolitan has produced its highest ever increase in earnings per share, with record results across every sector of the company. This is a reflection of the effort of everyone involved, especially our employees.
Results like these take experience and skilful management. Grand Metropolitan has both.
And, although it is tempting simply to point to the figures, the proof is more than just financial. Grand Metropolitan is now a better focussed company. It disposed of those businesses which were not a part of its long-term strategy and acquired businesses which enhanced each of its key activities.
Which means that Grand Metropolitan has been able to concentrate and direct its energies into the businesses where it is strong. To add strength to strength, not only from the outside but from the inside, through innovation and new product development.
Grand Metropolitan is now one of the UK's largest, most broadly based international companies. Its strengths are Specialist Retailing, Drinks, Food, and Hotels & Gaming. By building on these it is succeeding in more countries and with more customers.
And it is still growing rapidly.
Which isn't surprising. Its philosophy is, after all, to develop and add value to all its brands, businesses and properties.
That's why the year, which has been such a success, is the start of something even better.
GRAND METROPOLITAN
....adding value

UK COMPANY NEWS

SAS plans to raise BCal offer

BY CLAY HARRIS

Scandinavian Airlines System is preparing to raise the price of its partial offer for **British Caledonian Group**, in an effort to win a renewed recommendation from the UK airline.

The Civil Aviation Authority, meanwhile, rejected BCal's request that it throw out or speed up its consideration of **British Airways'** application for the immediate revocation of BCal's route licences, based on the proposed role of SAS.

In another development, Lazard Brothers, advising BA's rival full bid, raised its holding in BCal to 8.2 per cent through the purchase of a 1.9 per cent stake owned by Scottish Provident Institution.

SAS's increased price, which is unlikely to be launched before next week, will apply only to its offer for existing shares. It will not affect the voting rights, the planned £50m capital injection by SAS and UK institutions, or any other part of the rescue package which gained conditional acceptance by the CAA late last week.

The Scandinavian airline said last night that it remained in serious discussions with BCal and that a further statement would be made as soon as possible. SAS is known to consider next Wednesday as the effective deadline for any new move because of the imminent Christmas holidays.

The BCal board yesterday discussed both SAS's existing offer, of £20.44 per share for 26.14 per cent of the total, and BA's £9.72 bid which values BCal at £200m. It did not come to any firm conclusion.

BCal endorsed the SAS-led package before BA came up with its improved £200m cash offer.

The CAA rejected all points of BCal's request over the revocation application. It said that it could not dispense with publication requirements or convene a short-notice hearing, which BCal had asked to be held no later than next Wednesday.

The CAA believed it likely that other holders of air transport licences would wish to become parties to the case and regarded it as necessary that they had "a proper amount of time to prepare their evidence."

In a letter to BCal chairman Sir Adam Thomson, Mr Ray Colegate, group director of the CAA's economic regulation group, noted that even if the hearing were to be held next week, the CAA would not be able to consider its decision and publish it until the New Year.

"Parties to the case would then have the right of appeal to the Secretary of State: this too would take time to go through," Mr Colegate said.

M & G shares soar as Ensign cuts stake

By Martin Dickson

Shares in M & G, the fund management group, soared yesterday on the news that Ensign Trust, the aggressive investment trust, had sold just over 4 per cent of M & G's equity at 230p a share - 44p a share above Wednesday's closing price. The identity of the purchaser was not known.

The sale of the 3.25m shares reduces the stake held by Ensign in M & G to 2.86m shares, 3.8 per cent of the equity. Ensign is controlled by the Merchant Navy Officers' Pension Fund.

M & G's shares closed last night at 233p, up 47p on the day. Shares in fund management groups were among the highest stock market fliers before October's crash but have been among the worst performers since then.

M & G has undergone some major management changes following the retirement earlier this year of Mr David Hopkinson as managing director, to be followed by Mr Paddy Linaker. A stake of just over 32 per cent of the group is held by the Esmee Fairbairn Charitable Trust.

Air Europe attacks MMC on BA ruling

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

Air Europe, the independent airline, yesterday accused the Monopolies and Mergers Commission of acting unlawfully and unfairly when it cleared a proposed merger of **British Airways and British Caledonian.**

The Commission, alleged Air Europe, had been persuaded that the merger would not be against the public interest by undertakings, offered in secret by BA, which it had no legal power to entertain and on which no other interested party had been invited to comment.

Air Europe, which is owned by International Leisure Group, a UK travel company, asked the court to quash, or declare void, the Commission's report on the proposed merger, published on November 4, and to order a reinvestigation.

Mr Michael Beloff, QC, for Air Europe, said its application was supported by the Consumers' Association, the National Consumer Council, British Island Airways and Monarch Airlines, all of which had commented adversely on the proposed merger to the Commission.

The proposals the Commission had originally been invited to consider had differed materially from those on which it reported, Mr Beloff said.

The difference was made by BA's undertakings, without which it was clear that the Commission would have concluded that the merger would be against the public interest.

"They decided that the undertakings defused the potential detriment," Mr Beloff said.

He said that there were three grounds for Air Europe's application:

● That the Commission exceeded its legal powers because it had no power under the Fair Trading Act to entertain undertakings from BA in order to decide whether the merger would be against the public interest. The Act conferred exclusive powers on the Trade and Industry Secretary to request the Director General of Fair Trading to obtain appropriate undertakings with a view to removing or preventing adverse effects specified in the Commission's report.

● The Commission acted unfairly in failing to consult or invite comments on the undertakings from, among others, Air Europe, which had a legitimate expectation that it would be consulted, having been invited to make representations earlier in the Commission's investigations.

● In reaching its conclusion the Commission failed to invite the views of interested parties, including Air Europe, the Civil Aviation Authority and the Department of Transport, on the undertakings. In considering the public interest the Commission only solicited the views of BA, with its vested interest, Mr Beloff said.

Mr John Mummery, for the Commission, said there had been no point in going back to Air Europe for comments as it had already told the Commission that no undertakings could remedy the detriment to the public interest involved in the merger.

The hearing continues today.

Foreign & Colonial makes Japanese debut

By Steven Butler

Trading in the shares of the Foreign & Colonial Investment Trust were to have begun this morning on the Tokyo Stock Exchange, following approval by the exchange authorities.

Foreign and Colonial is the first investment trust, a quoted company that invests in other quoted companies, to be listed on the Tokyo Stock Exchange. The equivalent of unit trust are common investment vehicles in Japan.

Mr Michael Hart, joint manager of the Trust, said that Yamaichi Securities, which arranged the listing, had placed Foreign & Colonial shares with 2,400 Japanese investors after purchasing the shares in the London market. Mr Hart was uncertain as to the total size of the Japanese holding in the Trust.

Mr Hart said that a "road show" in Tokyo in October had produced considerable interest in the concept of an investment trust, in which shares can generally be purchased at a discount to their net asset value, and that Foreign & Colonial hoped increased Japanese investment would result in a decrease in the discount.

Foreign & Colonial shares have traded recently at a discount of about 23 per cent to assets, compared to 14 per cent prior to the market crash in October.

"It is very much an experiment," said Mr Hart. "Yamaichi has assured us they will maintain a good after market and will encourage longer term investment."

Mr Hart said he was aware that some other companies that had issued new shares in Tokyo had seen the shares return to the home market. The Foreign and Colonial listing does not involve the issue of any new shares.

TI expects to recoup £103m from US sale

By Clay Harris

TI Group said yesterday it still expected to recoup $190m (£103m) from the sale of six US engineering companies it bought in September as part of Houdaille Industries even though completion of the disposal had been delayed by the subsequent stock market crash.

The disposal was supposed to be completed by mid-November. The delay is believed to reflect the buyer's post-crash difficulty in raising finance for the leveraged deal rather than any disagreement over price.

TI bought Houdaille for $500m, including the assumption of $388m in debt, to get its hands on John Crane the world's largest maker of mechanical seals. It intended quickly to sell the rest of Houdaille.

Although TI figured conservatively that it would receive $190m, worth £117m at the time, for the non-Crane businesses, it hoped privately before the crash that the proceeds would reach $220m

Reliant Motor in the black

After two years' of losses, USM-quoted **Reliant Motor** has reported a pre-tax profit of £153,000 for the 12 months ended September 30 1987.

The improvement, compared with the loss of £171,000 last year, was helped by the sale of tooling and manufacturing rights in the Scimitar GTE/GTC. But the company said it would still have operated profitably without that.

Sales of the Rialto range of three-wheeled cars were said to have held up well. Production and sales of the Scimitar two-seater sports car were also said to be profitable, although they remained at less than 10 per cent of the expected 3,000 a year envisaged when Reliant was developing the car in the early 1980s.

Sales were said to have been close to last year's 250 units, as a result of increased exports.

Turnover fell to £12.53m (£14.3m) primarily as a result of the transfer of the spare parts operation to Unipart. Earnings per 10p share worked out at 2.8p (3.1p losses).

Substantial improvements were made to gearing, with a reduction in bank borrowings of over £600,000 - interest charges fell to £216,000 (£338,000).

Aim Group up 80%

Aim Group, aviation and general engineer, scored an 80 per cent increase from £852,000 to £1.54m in pre-tax profits for the six months to end-October. The interim dividend goes up from 1.9p to 2.2p

In brief

GENERAL ACCIDENT Fire and Life Assurance has purchased Thompsons of Derby, estates agents. Part of the consideration will be satisfied by the issue of 26,680 ordinary shares. Net assets of Thompsons amount to approximately £40,000.

GASKELL BROADLOOM has acquired Bamber, manufacturer of tufted carpet used mainly for production of carpet tiles, for initial consideration of £0.8m made up of £0.65m cash and issue to vendors of 107,143 shares. Further amounts up to £0.3m may be payable depending on Bamber's results for year to December 1988.

MICHAEL PETERS Group had experienced strong demand and should show substantial progress in first half of current year chairman told the annual meeting. The group was carefully pursuing development plans, both organically and by acquisition.

EDENDERRY GROUP intended to diversify from its traditional shoe manufacturing and distribution activities, Mr Michael Ward, chairman, told the annual meeting. The group had cash resources which exceeded £3m and with no borrowings was in an excellent position to take the right opportunities.

DIPLOMA is seeking authority from its shareholders to purchase up to 14.99 per cent of its own ordinary shares: the group would then give notice of its intention to redeem its preference shares.

Wheway £16m rights

BY STEVEN BUTLER

Wheway, the engineer and forger, yesterday announced a 20 per cent rise in pre-tax profits to £2.37m in the year to October 3, along with a £15.9m rights issue aimed at financing the purchase of Interfilta, an air filter maker, and Cudd Bentley, a firm of consulting engineers. Sales rose from £55.2m to £57.9m on restated comparisons.

Interfilta is to be acquired for £6m, including £50,000 in cash, £600,000 by the issue of 2m new ordinary Wheway shares, and £5.35m in guaranteed loan stock.

Initial consideration for Cudd Bently is to be £7.5m, consisting of 26m new Wheway shares, and deferred consideration of up to £2.4m. Some 14.7m of the new shares are to be retained by the vendors.

Both deals contain provisions that more shares be issued should Wheway share price average be below 30p in the five-days after the shares are marked ex-rights. Wheway shares yesterday closed off 5p at 29p.

Shareholders will be offered a four-for-eleven rights issue at 27p per share, consisting of 16 5m new subscription shares with the balance consisting of shares issued to Cudd Bentley.

Mr Ted Jeynes, chairman, said that the heavy reorganisation costs associated with the Wheway's move into higher quality markets were now largely behind, and cash flow would improve significantly in the current year.

Earnings per share in the group rose from 1.99p to 2.32p, and the full year dividend came to 0.65p, up from 0.50p in the previous year.

Blue Circle in £73m agreed bid

BY MIKE SMITH

Blue Circle, the cement company, yesterday launched a £73m agreed bid for Romag, a private Swiss company whose main asset is the Ockley Brick company in Surrey.

The move is part of managing director David Poole's strategy of decreasing Blue Circle's dependence on cement manufacturing. Earlier this month the company launched a £217m contested bid for Birmid Qualcast, the lawnmowers, boilers and gas cookers company.

Under yesterday's deal, Blue Circle is acquiring Romag's three bitumen companies in West Germany and Austria as well as Ockley, maker of bricks and tiles.

The acquisition will be financed by a placing of 75m new 7¾ per cent convertible redeemable preference shares. These have been underwritten by Baring Brothers and Hoare Govett, the company's merchant bank and broker.

Blue Circle's decision to issue convertibles rather than pay cash was influenced by its desire to keep gearing low. The present level of 17 per cent will fall about a percentage point after completion.

Ockley owns about 460 acres of clay reserves, which it says will service its present level of output for 200 years. Of these, about 160 acres have planning consent.

In the year to last March, Romag made pre-tax profits of £4.3m, of which Ockley contributed £3.6m. In the first half of the current year group profits were £4m, with Ockley providing £2.96m.

Blue Circle plans to add Ockley to its smaller Sittingbourne brick operation. "We plan to increase Ockley's output substantially through improved efficiency, thereby enhancing profitability," said Mr Poole. "There is also potential for improving product quality and more intensive marketing."

The shares being issued for the deal will be convertible on the basis of 25.97 ordinary shares for every £100 in nominal amount during each June between 1990 and 2009.

The effective conversion price of 385p per ordinary share compares with last night's close of 321p, down 6p. Full conversion of of the convertibles would result in the issue of about 19.5m shares, representing 6.6 per cent of the fully diluted share capital.

David Poole: " potential for improving product quality."

Reorganisation benefits start as Macarthy reaches £5.6m

BY HEATHER FARMBROUGH

Macarthy, the pharmaceutical distributor and retailer which has been highly acquisitive since new management moved in two years ago, yesterday reported annual results showing the early benefits of reorganisation and modernisation of its wholesaling businesses.

Pre-tax profits for the year to October 3 were £5.6m, in line with analysts' estimate and the forecast made in October on the acquisition of Drummond's, the pharmacy and health food retailer.

The improvement in profits and sales was disguised by a seventeen month reporting period for the comparative figures for 1986, in which pre-tax profit was £6.1m.

Sales for 1987 from the manufacturing and distribution businesses were £277.6m, compared with £361.8m the periodbefore. Retailing turnover was £35.3m (£40m). Sales for the eleven month period to September 1986 were £240.4m while pre- tax profit was £3.6m.

The results do not include any contribution from Drummonds, although profits before tax of four companies acquired during the year were included to the amount of £84,000 on sales of £6.8m.

There is a final dividend of 7p which gives a total for the year of 11.5p (13.5p for period). Earnings per share were 27.7p.

Within Macarthy Medical, the main emphasis has been on reorganising the wholesale depot network. Gross margins in the surgical division are under pressure.

Mr Nicholas Ward, chairman, said that net margins at retailers Savory & Moore and John Bell & Croydon could be better, although he was pleased by the improvement in profits.

The integration of the Drummonds businesses is progressing well. Mr Ward added that he was confident the company "is now set upon a period of profitable growth and development, both organically and by acquisition."

• comment

The underperformance in Macarthy's share price since the stock market's crash bears no correlation with the improvement in the business. Since he became chairman in February last year, Mr Ward has been busy reorganising and acquiring. The next two years should show the fruits of this, notably in distribution and in retailing, as Drummonds is integrated, bringing lower overheads and higher sales. The extent of the work needed will not transform a caterpillar into a butterfly overnight. McCarthy's pre-tax profits should, however, reach £10.8m for the current year, valuing the shares on a prospective p/e of 10½ at 276p.

MS £1.3m in profit halfway

MS International, mechanical and electrical engineering group, reported pre-tax profits of £1.3m in the half year to October 31, compared with losses of £0.4m.

Although turnover fell to £21.54m (£24.9m) trading profits came out ahead at £1.8m against £563,000.

Mr Michael Bell, the chairman, reported that all three divisions traded profitably during the period with defence and electrical equipment and the mechanical engineering divisions producing excellent results. That reflected the company's determination to achieve organic growth, he said.

The mining equipment division maintained a prominent position in a changing market, and on a much reduced scale made a reasonable contribution to the overall result.

The interim dividend is stepped up by 50 per cent to 0.75p (0.5p) with earnings per 10p share at 3.4p against losses of 2p. The total dividend was held at 2p in 1986/87 when pre-tax profits tumbled £2m to £1m.

Looking ahead, the chairman stated that the defence and electrical equipment division had well established product lines, with the benefit of ongoing orders.

In addition, the mechanical engineering division would have the benefit of the recent acquisition, Abraham Engineering, in the second half.

The current operational difficulties of British Coal would affect the mining equipment division, although substantial overseas sales and the maintainance of austere controls should ensure a reasonable contribution to profits, the chairman said.

The value of the order book, which was 35 per cent ahead of last year, together with a substantial reduction in borrowings to £7.6m (£9.4m) following property sales, put the group in a strong position to enter the second half, Mr Bell said.

Organic growth was the main feature of immediate development plans, although acquisition possibilities were being constantly monitored.

Interest charges for the half year fell to £502,000 (£933,0000). Tax took £425,000 (£200,000), and minorities £53,000 (£101,000 credit). There was an extraordinary £4.81m debit last time, being the loss on the sale of subsidiaries and closure of business segments.

Dewhurst Dent doubles

Dewhurst Dent, Lancashire-based converter, printer and finisher and manufacturer of leather and fabrics, more than doubled pre-tax profits from £679,299 to £1.49m on turnover up from £14.62m to £17.25m for the year to July 19 1987.

Earnings increased to 5.4p (2.5p).

The company plans to open offices in London to increase its exposure in the south of England and is looking for an acquisition in related fields.

The directors said that although all companies within the group were continuing to trade satisfactorily, there were signs of a quieter time ahead.

The board has taken the view that the footwear business does not fit in with its long-term strategy and has sold the business at a price just above its year-end NAV.

Gross profit rose to £4.37m (£3.37m) and administration expenses totalled £1.71m (£1.39m). Interest charges (less received interest) totalled £2,567 (£201,559). Tax amounted to £345,204 (£127,197).

Celestion losses reach £0.28m

Celestion Industries, maker of sound reproduction equipment and clothing, reported increased interim losses up from £25,000 to £276,000, on turnover little changed at £21.35m, against £21.2m.

Interest charges rose from £213,000 to £262,000, but there was a £104,000 credit this time arising from a pension holiday.

The company said the loudspeaker division continued to make satisfactory progress under its new management.

Loss per 20p share came to 1.3p (0.1p).

Quest signs Soviet deal

Quest Group, computer products supplier, yesterday announced the signing of a major extension to its Soviet cooperation contract together with three large equipment contracts from the Soviet Ministry of Foreign trade. In total these amount to over £15m and are for delivery by the end of 1988.

The announcement of the Russian deal comes more than two months after a bizarre episode when a bogus message purporting to be from Quest claimed that the company had been awarded a £40m contract to supply Russian companies with machinery.

The Stock Exchange later cancelled all deals in the shares of the company between the bogus announcement at 10.20 a.m. on October 2 and the suspension of shares at 11.15 a.m.

The company yesterday reported a 5 per cent increase in pre-tax profits from £1.25m to £1.31m and turnover up from £8.95m to £9.9m for the half year to August 31. A first interim dividend of 0.5p is declared on earnings slightly down at 6.07p (6.16p), 5.54p (6.04p) fully diluted, after tax of £315,000 (£258,000).

With yesterday's official announcement, the company said that the first project management contract for the Soviet Union was nearing completion and the directors confirmed that the company was ahead of schedule. Negotiations on a much larger contract for a similar installation were continuing. and the company anticipated a successful outcome in the first half of next year.

Other negotiations on similar contracts were proceeding positively, the benefits of which are likely to be felt in 1989.

Bennett & Fountain store expansion

Bennett & Fountain Group, USM-quoted electrical goods wholesaler and retailer, will increase its wholesale chain from 36 to 41 outlets through the acquisition of E. Wilkes (Electrical Factors) for a total consideration of £3.5m in cash and unsecured convertible loan notes.

AIB lifts stake in US bank

Anglo Irish Bank will buy 500,000 new shares of First Maryland Bancorp on December 31 at $27.57 per share.

The transaction, the final of four, is in accordance with the stock purchase agreement of March 7 1983,

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- CH Industrials, Electric and General Investment, Elgo Group, Forminster, Kelsey Industries, G.F. Lovell, North of Scotland Investment, Pavion International. Wellman.

Finals- Cardiff Development, Strata Investments

FUTURE DATES

Interims-	
Parkfield	Jan 14
Radiant Metal Finishing	Dec 30
Reliance Security	Jan 12
Finals-	
ICI	Feb 25
Reliable Properties	Dec 21
Spectrum	Dec 21
Sturge	Jan 11
Warner Estate	Jan 28

Supply fears drive palm oil market 30% higher

BY WONG SULONG IN KUALA LUMPUR

PALM OIL prices on the Kuala Lumpur Commodities Exchange have shot up by more than 30 per cent in the past six weeks as fears of a sharp drop in Malaysian production and climatic disasters in India and the Philippines have sent traders scurrying to cover short positions.

Crude palm oil prices yesterday broke through the 1,000 ringgit (£220) barrier for the first time in 28 months, with February CPO closing at 1,011 ringgit a tonne and March at 1,014 ringgit in active trading. A total of 1,541 lots of 25 tonnes each was traded.

Malaysia's palm oil production peaked at 551,000 tonnes in September and the market was caught by surprise when October output fell by 68,000 tonnes to 483,000 tonnes.

November and December production figures are expected to be well below earlier projections as major palm oil growing areas in Johore, Pahang and Trengganu states have been hit by floods.

The industry is revising its earlier forecast of the country's 1987 palm oil production from 4.7m tonnes to 4.5m tonnes, with some operators forecasting a figure as low as 4.3m tonnes.

Malaysian growers attribute the sharp drop in output to the effects of low fertiliser input early last year, when prices plunged to 430 ringgit a tonne, below the average Malaysian production cost of 550 ringgit.

KLCE traders expect CPO prices to remain steady until January next year, when production should recover.

A factor in the strong price surge is heavy buying by India. "The Indian Government has been playing a clever game, successfully covering up the extent of the drought earlier this year. In a way, the current bullish market is a delayed reaction to the Indian drought," commented one trader, who said the Indian Government had been buying 50,000 to 60,000 tonnes of palm oil a month since November.

The Soviet Union has also taken almost 1m tonnes of soyabeans and soyameal from the US and is reported to be looking for another 700,000 tonnes of soya pellets from South America.

In the Philippines two typhoons, last month and this week, were reported to have hit the coconut growing areas badly, and there are fears of further tropical storms. The Philippines coconut authority expects 1988 production to fall by more than 18 per cent to 2.2m tonnes.

The high trading activity on the KLCE, while reflecting the shortage of the commodity, is viewed by the authorities as further evidence of the recovery of confidence in the exchange since it was reopened in October 1985, after major statutory and organisational changes to cope with default situations.

The exchange is the only one in the world dealing with CPO futures and is being used by other markets as a reference for CPO prices.

CPO transactions have been growing steadily with a daily average of 439 lots traded in August, 579 lots in September and October, and 698 lots daily in November.

A record of 1,691 lots was traded last Tuesday.

Several commission houses which shifted their activity to the Tokyo Commodity Exchange when the KLCE was suspended in March 1984, recently returned to the KLCE.

Oil prices under renewed pressure

By Richard Johns

THE ORGANISATION of Petroleum Exporting Countries' efforts to maintain oil prices around a reference of $18 per barrel came under renewed pressure as spot rates plunged again yesterday.

Brent Blend, the key North Sea crude, fell by a $1 per barrel to $15.15 during a day of frenzied trading. One transactions was reported by a leading trading company at only $14.40.

The market subsequently staged a technical recovery but by the end of the day's trading had fallen much faster and far further than most analysts had expected in the immediate wake of the Opec conference which ended in Vienna on Monday night.

On the New York Mercantile Exchange in morning trading prices recovered to $15.44 having fallen to $14.90 early in the day.

Venezuela lowered rates for its very heavy crudes, which are not covered by Opec pricing agreements, by $2-2.50 per barrel. The move in response to lower fuel oil prices could well have been made before the Opec meeting but was apparently delayed until after it out of concern about sustaining market confidence during the conference, which reaffirmed a ceiling on collective output of 15.06m barrels a day for 12 of the 13 members excluding Iraq.

In the US Shell Oil announced that it was cutting rates for all its Texas and Louisiana crudes by $1 per barrel.

Mr Mehdi Varzi of Kleinwort, Greiveson suggested that a basic reason for the extent of the fall had been the failure on the part of Saudi Arabia to give a clear signal about its defence of an $18 price.

He predicted that Opec members would soon come under heavy pressure to offer discounts and probably had prepared contingency plans to do so.

Mr David Gray of James Capel predicted "bleak" prospects for Opec in the February-March-April period.

Noranda to ration copper supplies

BY KENNETH GOODING, MINING CORREPONDENT

NORANDA, the big Canadian natural resources group, has told customers in the US and Europe that they can have only about one quarter of the high-grade copper it contracted to supply in January and February next year.

The group's difficulties illustrate the extreme shortage of high-grade copper for nearby delivery, a phenomenon which has pushed the cash price of Grade A material on the London Metal Exchange to record heights in recent weeks and forced the backwardation (the premium for cash metal over the forward price) to unprecedented levels.

This follows four years when copper demand has outstripped supply and stocks have been whittled away to the lowest point since 1974.

Mr Robin Bhar, analyst at Rudolph Wolff, the London-based metal trader, says that, if present trends continue, worldwide copper stocks will be at the dangerously low level of about 570,000 tonnes by the year-end, equivalent to only four-and-a-half weeks consumption.

Mr John Hampton, Noranda's vice president for copper sales, said yesterday that his company had reached the point of declaring force majeure (the clause in a metal supply contract which allows the seller not to deliver or the buyer not to take delivery because of events beyond his control) but customers indicated they would prefer to receive at least some of the copper they had expected.

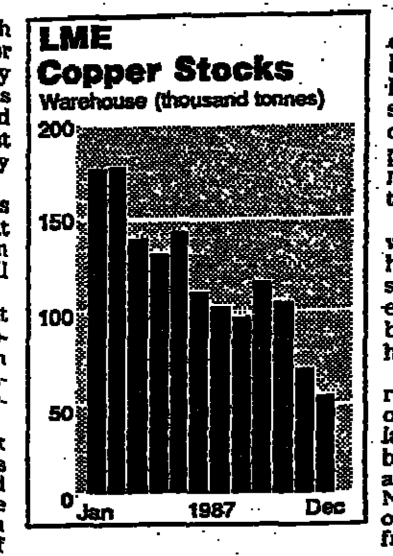
"Most of them would prefer us to ship late rather than not at all," he said. "We have told them that no one will receive their full contractual quotas until March."

Mr Hampton made it clear that Canadian customers will be supplied in full, as will the Hudson Bay and Falconbridge companies, some of whose copper Noranda refines.

Noranda is not short of stock but its smelter in Quebec has suffered a series of unexpected set-backs this year and by the end of November was late in shipping 6,000 tonnes of high-grade copper.

The problems included a strike at the smelter early in the year followed by a hot summer when the facility was closed for environmental reasons more often than usual. Later a technical problem developed in a reactor vessel which caused a further 15-day closure.

On top of these events, the Canadian rail strike disrupted deliveries of stock for the smelter.



In a normal year the Quebec refinery produces about 350,000 tonnes of refined copper of which Noranda itself takes 60 per cent.

This is a relatively modest amount compared with western consumption of 7.5m tonnes of copper a year and the 6,000 tonnes shortfall on contracts represents only seven or eight working days output at the smelter.

Traders emphasise that the current shortage is only of high-grade copper and suggest it has been caused by a lack of smelting capacity. "Even when demand is as high as it is today, pollution control regulations do not encourage companies to run their smelters flat-out," said one.

Brass mills and alloy makers which use lower-grade copper have plenty of stock but traders suggest many rod mills will extend their Christmas holidays because of the shortage of high-grade material.

So far there has been only one report of an unplanned closure of a semi-fabrication plant for lack of feed. Phelps Dodge, the biggest US copper producer, shut a continuous cast rod mill at Norwich, Connecticut, because of late delivery of feed stock from Canada.

Traders suggest, however, that several small copper semi-fabrication plants in the US have had to interrupt operations because of stock shortages.

Analysts believe the supply situation will not ease until the second half of next year when a surplus of production over consumption – and possibly a recessionary slow-down in demand – should allow some stock rebuilding to begin.

Lead and zinc prices forecast to decline

BY KENNETH GOODING

THERE ARE no longer strong fundamental reasons for the price of lead to move higher, the London metals research unit of Shearson Lehman Brothers says in its latest report.

At the same time the price of zinc can be expected to drift downwards in the early part of next year it suggests.

The report predicts that there will be "somewhat improved" lead production levels for 1988-89 and this, coupled with relatively weak demand trends, should push the market back into balance and then oversupply.

Stock levels are likely to remain low by historical standards for some time, however, so the downward pressure on London Metal Exchange prices from current levels of 30 cents a lb should be limited.

Current prices should be enough to enable stocks to be rebuilt gradually in the coming months but the present position is tight and inventories are likely to remain low throughout 1988, says Mr Stephen Briggs, Shearson's lead analyst.

There is likely to be some weakness in the LME price in the first quarter of 1988 and a more sustained weakness might be seen at the end of next year and into 1989.

"Our forecast of 27 cents a lb as an average for next year represents a modest decline from current price levels but is more or less the same as the 1987 average", Mr Briggs adds.

Discussing zinc, Mr Neil Buxton predicts the market will return to surplus next year, albeit a small one, following six years of deficit.

On the demand side the analyst forecasts consumption will continue to "grow modestly" in 1988 to 4.975m tonnes from 4.423m this year. Production should top 5m tonnes for the first time, leaving the market oversupplied by an estimated 30,000 tonnes.

"Consequently we believe that the LME prices will begin to drift downwards in the early part of next year from their recent level of $860-$875 a tonne, basis three months.

"This would certainly imply that the European Producer Price, currently at $860 a tonne, will come under pressure. One factor that should limit the fall of dollar prices to around $800 a tonne is the likely weakness of the US currency throughout next year (our average forecast is £1=$1.85)".

Shearson says its "best estimate" of the average price for zinc next year is $810 a tonne. Mr Buxton expects prices to spend much of 1988 in the $770-$850 a tonne range with prices ending next year on a weaker note than on which they will start it.

"Annual Review of the World Lead and Zinc Industries 1987." From Shearson Lehman, 1 Broadgate, London EC2M 7HA. £100 or $150.

Indonesia studies gold loan plan to ease miners' problems

BY JOHN MURRAY BROWN IN JAKARTA

INDONESIA IS considering the use of gold loans to help foreign companies involved in exploration to overcome serious cash flow difficulties caused by the fall in world stockmarkets.

Bank Indonesia, the country's central bank, is now studying a plan whereby commercial banks would lend gold to mining companies to be repaid ounce for ounce out of future production.

Mr Soetaryo Sigit, the director general of mines at the Ministry of Energy, said the Government was "watching whether there is a decline in spending or even the termination" of some contracts, following the stock market collapse.

Indonesia, where gold production is currently put at around 3 tonnes a year, has seen a rush of foreign interest, with 77 joint venture agreements signed in the last 12 months.

These include BP Minerals of the UK, CRA, the large Australian mining house, and Newmont Mining of the US.

Kalimantan, seen as the best prospect, has now been closed to new contractors. Indeed such has been the local enthusiasm that the Government has now had to raise from 2m rupiahs (£660) to Rp50m the bank collateral for Indonesian companies buying mining rights. This follows reports that large numbers of local firms were selling out to foreign joint ventures.

The stock market crash represents a far greater setback, however, affecting as it does the small and medium-sized companies, hitherto the driving force behind Indonesia's gold rush. These companies previously relied almost exclusively on stock market rights issues to raise exploration capital.

Pelsart Resources and Jason Mining, two Australian concerns jointly developing the Kasongan prospect in Kalimantan, where commercial production is expected early next year, have already made a formal request to the investment department of the central bank to raise a gold loan. Pelsart which has five Indonesian gold contracts is the minerals arm of the Parry Corporation, the Perth-based conglomerate and one of the Australian companies worst hit by the market's slide. Parry shares slipped recently to around 35 Australian cents from a high of $A4.55 earlier in the year.

US offers sugar re-export quota

PHILIPPINE sugar industry officials said the gloom caused by Tuesday's announcement of a 23 per cent cut in the country's 1988 US sugar import quota had lightened considerably with news that House and Senate negotiators have tentatively approved a sugar re-export programme for Caribbean countries and the Philippines.

Under the program, Caribbean nations would be able to ship 290,000 short tons and the Philippines up to 110,000 tons of raw sugar to the US outside the sugar quota. The sugar would be refined and re-exported on to world markets.

Strike paralyses Canadian grain port

BY DAVID OWEN IN TORONTO

A WEEK-OLD strike by a mere 69 members of the Canadian Grainworkers Union at the highly-mechanised Pacific coast terminal of Prince Rupert is causing extreme concern to hard-pressed domestic grain exporters.

The dispute has brought the terminal, which normally handles some 15 per cent of Canadian grain exports, to a complete standstill. Prior to the stoppage, it was handling on average 90,000 tonnes out of total Canadian weekly exports of approximately 660,000 tonnes.

The timing of the strike – called principally over manning levels – is particularly unfortunate for exporters, with west coast ports operating at peak capacity and the Great Lakes system poised to shut down for winter.

"We had been pushing grain at maximum levels through west coast ports," said Mr Brian Stacey of the Canadian Wheat Board, the country's only wheat exporter. "There is no excess at Vancouver to take up the slack."

Negotiations are scheduled to resume today under the auspices of a mediator. For the moment, according to a terminal official, picket lines remain in place.

The problem comes at a time when the Canadian share of various export markets is under intensifying pressure because of world oversupply and heavily subsidised sales by its major competitors.

Tin supply deficit reduced

BY KENNETH GOODING

LESS PRIMARY tin was produced than consumed in the western world this year but the deficit in supply was lower than in 1986 because of increased imports from China, according to the International Tin Council.

This year the supply deficit will be 21,500 tonnes, compared with 24,400 in 1986, the council suggests in its latest assessment.

In 1986 the supply deficit was offset by a reduction in the huge stocks overhanging the market since the tin crisis in October 1985 and by the sale of 5,500 tonnes by the US General Services Administration.

The council points out that the GSA sold tin again during 1987 but gives no estimate of the total.

It predicts that in the first quarter of next year there should be another 5,800 tonnes deficit in primary metal production compared with consumption, about the same as in the first three months of 1987.

Mine output of tin-in-concentrates this year will fall by 3,200 tonnes to 135,800 tonnes compared with 1986 because low prices caused mines to close, the council suggests. Export restrictions by the Association of Tin Producing Countries might also have had an impact.

Western world consumption of tin metal in 1987 is put at 166,000 tonnes compared with 165,100 last year.

Consumption in the first quarter of 1988 is forecast to be 41,700 tonnes which would be about 5,800 tonnes more than production and imports from the socialist countries combined

Nickel stocks fall sharply

STOCKS OF nickel held by non-Socialist world producers fell sharply during the first 10 months of 1987 and by the of end October, totalled 77,200 tonnes compared with 99,500 tonnes at the beginning of January. World Bureau of Metal Statistics figures show, **reports Reuter.**

Production of 431,600 tonnes during the January to October period was exceeded by deliveries of 453,800 tonnes

The fall in class one nickel stocks was much less than that shown by class two stocks.

WORLD COMMODITIES PRICES

LONDON MARKETS

A WARNING that drought losses could result in Indonesia having to import more than 500,000 tonnes of sugar next year triggered a sharp rise on the London futures market, where nearby raws gained $8 or $9 a tonne to reach 19-month highs. Dealers said heavy purchases were also expected from the Soviet Union and the Indian sub-contionent, among others, in the new year. On the London Metal Exchange aluminium prices maintained their bull trend with the cash standard grade position climbing another £25.50 to £1,057.50 a tonne. That took the rise on the week to £172.50 a tonne. Dealers said trading conditions were quite, however, and mainly linked to covering operations against potential options declarations. Concern over nearby supply tightness was evident on the copper market, with the cash premium over three months metal widening from £209 to £227.50 a tonne.

SPOT MARKETS

Crude oil (per barrel FOB January)		+ or -
Dubai	$13.85-14.05	-1.05
Brent Blend	$15.60-15.85	-0.725
W.T.I.(1 pm est)	$15.45-15.55	-0.835
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$167-170	-3.50
Gas Oil	$141-143	-10.00
Heavy Fuel Oil	$64-65	-8.00
Naphtha	$133-136	-9.50
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$478.75	-8
Silver (per troy oz)♣	670c	-11
Platinum (per troy oz)	$489.00	-2.40
Palladium (per troy oz)	$117.75	
Aluminium (free market)	$1870	+60
Copper (US Producer)	134½-140c	-0.667
Lead (US Producer)	42c	
Nickel (free market)	342c	+3
Tin (European free market)	£3800	-15
Tin (Kuala Lumpur market)	17.00r	
Tin (New York)	319.50c	
Zinc (Euro. Prod. Price)	$860	
Zinc (US Prime Western)	44.375c	
Cattle (live weight)†	104.02p	-5.00*
Sheep (dead weight)†	192.43p	-16.12*
Pigs (live weight)†	73.83p	-1.19*
London daily sugar (raw)	$215.20v	+2.80
London daily sugar (white)	$221.40v	+1.90
Tate and Lyle export price	£223.00	+0.50
Barley (English feed)	£108.50	
Maize (US No. 3 yellow)	£134.50	
Wheat (US Dark Northern)	£93.50u	
Rubber (spot)♥	62.00p	-0.50
Rubber (Jan) ♥	64.50p	-0.25
Rubber (Feb) ♥	64.50p	-0.25
Rubber (KL RSS No 1 Jan)	273.50m	-0.50
Coconut oil (Philippines)§	$530.00w	-10.00
Palm Oil (Malaysian)§	$430.00	+17.50
Copra (Philippines)§	$370.00z	
Soyabeans (US)	£151.00w	
Cotton "A" index	74.55c	+1.60
Wooltops (64s Super)	484p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. w-Dec/Jan. v-Jan/Feb. z-Jan. y-Feb/Mar. u-Apr/May † Meat Commission average fatstock prices. * change from a week ago. ♥ London physical market. § CIF Rotterdam ♣ Bullion market close. m-Malaysian/Singapore cents/kg

COCOA £/tonne

	Close	Previous	High/Low
Dec	1024	1030	1026 1022
Mar	1053	1054	1054 1050
May	1073	1075	1075 1071
Jly	1092	1093	1093 1089
Sep	1112	1114	1112 1110
Dec	1137	1136	1138 1133
Mar	1162	1160	1162 1158

Turnover: 2058 (2325) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for December 16: 1356.95 (1343.80) 10 day average for December 17: 1371.28 (1377.18).

COFFEE £/tonne

	Close	Previous	High/Low
Jan	1212	1205	1210 1197
Mar	1237	1230	1238 1222
May	1255	1252	1255 1241
Jly	1272	1270	1272 1258
Sep	1290	1279	1285 1270
Nov	1302	1299	1292 1285
Jan	1320	1320	

Turnover: 3747 (2317) lots of 5 tonnes
ICO indicator prices (US cents per pound) for December 16: Comp. daily 1979114.94 (114.58); 15 day average 116.41 (115.53).

SUGAR $ per tonne

Raw	Close	Previous	High/Low
Mar	198.00	188.40	199.40 188.20
May	196.60	188.00	197.60 188.40
Aug	196.00	187.80	196.40 187.60
Oct	197.40	189.00	198.00 189.00
Dec	198.60	191.00	194.00
Mar	202.00	193.60	199.00 198.00
May	203.60	196.00	
White	**Close**	**Previous**	**High/Low**
Mar	231.50	224.20	231.00 224.00
May	235.30	227.50	236.00 227.50
Aug	239.00	231.50	240.00 232.00
Oct	239.00	231.50	240.00 232.00
Dec	240.00	231.80	250.00 232.00
Mar	245.00	237.00	243.00
May	250.00	240.00	

Turnover: Raw 6116 (1996) lots of 50 tonnes; White 2200 (2567).
Paris- White (FFr per tonne): Mar 1248, May 1270, Aug 1295, Oct 1292, Dec 1300, Mar 1340.

GAS OIL $/tonne

	Close	Previous	High/Low
Jan	140.00	150.50	146.75 137.50
Feb	136.25	146.50	142.75 134.00
Mar	132.50	143.25	138.25 130.00
Apr	130.25	139.00	135.50 130.00
May	130.50	138.00	134.50 129.50
Jun	131.00	139.00	136.00 130.00
Jul	131.00	141.00	134.00 131.00

Turnover: 16264(8684) lots of 100 tonnes

GRAINS £/tonne

Wheat	Close	Previous	High/Low
Jan	114.45	114.50	114.60 114.40
Mar	115.45	115.55	115.60 115.40
May	117.75	117.85	118.00 117.60
Jly	120.40	120.50	120.40
Sep	103.40	103.40	103.40
Nov	105.50	105.50	105.50
Jan	108.40	108.30	108.40
Barley	**Close**	**Previous**	**High/Low**
Jan	107.50	107.15	107.60 107.50
Mar	109.35	109.00	109.50 109.30
May	110.90	110.70	110.90
Sep	97.85	97.80	97.85
Nov	100.25	100.20	100.25
Jan	102.50	102.45	102.50

Turnover: Wheat 427 (291), Barley 27 (92) lots of 100 tonnes.

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 0 tonne
Cash	1920-40	1900-10		1940-60		
3 months	1840-60	1825-35	1840/1820	1840-60	1840-60	2,680 lots
Aluminium, 99.5% purity (£ per tonne)						Ring turnover 19,800 tonne
Cash	1056-60	1031-3		1052-5		
3 months	990-2	981-2	996/979	991-2	991-2	52,677 lots
Copper, Grade A (£ per tonne)						Ring turnover 70,650 tonne
Cash	1555-60	1532-5	1580/1570	1565-70		
3 months	1330.5-1	1324-5	1350/1330	1337-9	1338-9	79,521 lots
Copper, Standard (£ per tonne)						Ring turnover 175 tonne
Cash	1510-20	1480-1500	1520	1520-30		
3 months	1300-10	1300-10		1310-20		43 lots
Silver (US cents/fine ounce)						Ring turnover 0 ozs
Cash	670-3	674-7		669-72		
3 months	683-6	685-8		682-5	691-3	611 lots
Lead (£ per tonne)						Ring turnover 13,300 tonne
Cash	354-5	354.5-5	352/351	351-2		
3 months	343-4	344.5-5	346/341	341-2	345-6	11,960 lots
Nickel (£ per tonne)						Ring turnover 1,638 tonne
Cash	4140-50	4130-50		4120-5		
3 months	4065-75	4058-60	4080/4045	4072-5	4045-50	9,268 lots
Zinc (£ per tonne)						Ring turnover 23,450 tonne
Cash	462-3	463-4		463.5-4		
3 months	464-5	465-6	467/463.5	466-6.5	466-7	13,638 lots

POTATOES £/tonne

	Close	Previous	High/Low
Feb	100.00	103.50	
Mar	87.00	87.50	
Apr	144.60	144.40	144.60 143.50
May	157.80	158.00	156.00
Nov	86.50	87.50	
Feb	97.50	98.50	

Turnover: 46 (100) lots of 100 tonnes.

SOYABEAN MEAL £/tonne

	Close	Previous	High/Low
Feb	137.00	140.50	138.00 137.00
Apr	129.50	132.00	131.00 129.50
Jun	120.50	121.00	
Aug	118.00	120.00	
Oct	118.00	120.00	
Dec	121.00	122.00	

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Turnover: 120 (125) lots of 100 tonnes.

FREIGHT FUTURES £/index point

	Close	Previous	High/Low
Jan	1245.0	1255.5	256.0 240.0
Apr	1265.0	1290.0	285.0 265.0
Jly	1118.0	1137.5	130.0 118.0
Oct	1227.5	1240.0	230.0 225.0
BFI	1264.5	1268.0	264.5

Turnover: 338 (188)

FRUIT AND VEGETABLES

Satsumas, 30-45p a lb (25-40p), and clementines, 35-45p (25-40p), have risen as seasonal demand increases, reports FFVIB. Apples, grapefruit and oranges were unchanged. Southern hemisphere apricots, £1.00-1.20, peaches, 35-40p, and cherries, £1.50-1.90, are new in the shops. Brussels sprouts, parsnips, potatoes, carrots and leeks are unchanged. Cauliflowers, 75-95p each (55-75p), rose as homegrown supplies fell. These will be replaced by Breton, Italian and Jersey imports. Round lettuces, 35-50p each, and icebergs, 80p-£1.20 (75p-£1.00) are still very scarce as a result of bad weather. Tomatoes are still in excellent supply at 50-75p. Imported celery is plentiful at 40-60p and homegrown Chinese leaves have been replaced by imports at 65-85p (40-75p).

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	478½-479	260½-261
Opening	487¼-488¾	265-265½
Morning fix	487¾	265¼
Afternoon fix	477½	260½
Day's high	488¼-488¾	
Day's low	472½-474	
Coins	**$ price**	**£ equivalent**
US Eagle	492½-497½	268-271½
Mapleleaf	492½-497½	268-271½
Britannia	492½-497½	268-271½
Krugerrand	478-481	260-262
1/2 Krug	253-262	137¾-142¾
1/4 Krug	127-135	69¼-73½
Angel	490-495	267-270
1/10 Angel	50-55	27¼-30
New Sov.	112½-113½	61¼-62
Old Sov.	112½-114	61¼-62¼
Noble Plat	506-518	276½-281½

Silver fix	p/fine oz	US cts equiv
Spot	677.10	368.20
3 months	690.55	376.25
6 months	704.30	384.90
12 months	733.20	403.05

LONDON METAL EXCHANGE TRADED OPTIONS

Aluminium (99.5%)	Calls		Puts	
Strike price $ tonne	Jan	Mar	Jan	Mar
1750	185	134	9	67
1850	108	85	18	118
1950	53	50	31	180
Copper (Grade A)	**Calls**		**Puts**	
Strike price $ tonne	Jan	Mar	Jan	Mar
2400	315	285	19	227
2500	236	240	39	281
2600	168	202	71	341
Copper (Grade A)	**Calls**		**Puts**	
Strike price £ tonne	Jan	Mar	Jan	Mar
1450	43		23	
1500	20		50	
1550	7		87	

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Dec	485.1	485.3	485.5	475.0
Jan	486.4	486.8	0	0
Feb	489.7	490.1	490.1	475.0
Apr	495.8	496.4	496.5	480.0
Jun	501.9	502.8	502.0	496.0
Aug	508.2	509.0	507.3	497.0
Oct	514.8	515.7	510.0	505.5
Dec	521.4	522.4	520.0	508.0
Feb	528.2	529.4	515.5	515.5

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Dec	496.7	489.1	489.6	486.0
Jan	497.8	491.1	498.5	484.0
Apr	505.8	499.2	507.0	493.0
Jul	513.8	507.7	510.0	503.3
Oct	521.8	516.2	519.0	512.0
Jan	529.8	525.2	0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Dec	680.0	675.6	676.0	657.0
Jan	681.0	677.0	678.0	670.0
Feb	686.0	682.0	0	0
Mar	691.5	687.5	694.5	665.0
May	701.4	697.5	703.0	674.0
Jul	711.5	707.3	712.0	684.0
Sep	721.3	717.1	0	705.0
Dec	738.1	731.9	727.0	715.0
Jan	740.9	736.7	0	0
Mar	751.6	747.4	760.0	750.0

COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Dec	124.70	127.50	128.90	124.10
Jan	122.20	124.50	123.85	123.85
Feb	116.70	117.00	0	0
Mar	111.20	109.50	111.60	109.20
May	101.20	99.70	101.70	99.90
Jul	93.20	91.90	0	92.10
Sep	90.40	89.55	90.00	89.05
Dec	88.70	87.90	88.90	88.65
Jan	88.50	87.65	0	0
Mar	88.00	87.10	0	0

CRUDE OIL (Light) 42,000 US galls $/barrel

	Close	Previous	High/Low	
Jan	15.80	15.96	15.90	14.90
Feb	15.68	15.73	15.80	14.73
Mar	15.60	15.67	15.70	14.70
Apr	15.51	15.64	15.65	14.70
May	15.50	15.62	15.65	14.70
Jun	15.40	15.60	15.63	14.78
Jul	15.25	15.58	15.08	14.85
Aug	15.27	15.58	15.50	14.80
Sep	15.10	15.54	15.35	14.95
Oct	15.20	15.52	15.20	14.90

HEATING OIL 42,000 US galls, cents/US galls

	Close	Previous	High/Low	
Jan	49.10	49.27	49.60	46.60
Feb	47.65	47.69	47.80	45.69
Mar	45.20	45.24	45.35	43.24
Apr	43.40	43.19	43.50	41.19
May	42.20	42.04	42.40	40.50
Jun	41.10	41.34	41.20	39.95
Jul	41.20	41.34	41.25	39.75
Aug	41.10	41.84	41.10	41.10
Sep	41.75	42.54	41.75	41.75

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Mar	1784	1778	1798	1766
May	1811	1803	1814	1792
Jul	1838	1828	1840	1822
Sep	1863	1858	1869	1851
Dec	1903	1894	1904	1889
Mar	1934	1929	1940	1925
May	1959	1954	0	0

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Dec	126.40	124.55	125.85	124.50
Mar	129.50	128.40	129.50	128.60
May	131.50	130.50	131.80	130.70
Jul	133.30	132.50	133.50	132.75
Sep	135.63	134.60	134.50	134.50
Dec	136.75	136.25	136.25	136.25
Mar	138.25	137.25	0	0
May	139.55	138.45	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jan	8.35	7.95	8.10	8.10
Mar	8.79	8.36	8.88	8.50
May	8.79	8.34	8.82	8.51
Jul	8.75	8.34	8.80	8.51
Oct	8.75	8.39	8.85	8.53
Jan	8.81	8.46	0	0
Mar	8.95	8.65	9.05	0

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Mar	67.70	65.88	67.88	66.30
May	68.68	66.71	68.71	67.20
Jul	68.90	66.90	68.90	67.25
Oct	65.20	64.60	66.30	64.70
Dec	64.10	63.72	64.50	63.65
Mar	65.25	64.93	65.25	65.25
May	65.45	65.18	0	0

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jan	164.25	166.10	166.40	164.20
Mar	164.90	165.60	166.30	164.30
May	165.30	164.75	165.80	164.50
Jul	165.00	165.25	165.00	164.50
Sep	164.75	164.75	164.50	164.00
Nov	161.80	162.00	0	0

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Jan	589/2	581/0	589/4	575/0
Mar	599/4	590/6	600/0	585/2
May	605/4	598/0	605/4	592/6
Jul	610/6	602/4	611/0	596/0
Aug	606/0	600/4	606/0	594/0
Sep	587/4	585/4	589/0	582/0
Nov	584/2	581/4	585/4	578/0
Jan	592/4	590/0	592/4	587/0
Mar	600/4	597/0	0	0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Dec	19.36	19.34	19.37	19.25
Jan	19.36	19.43	19.43	19.29
Mar	19.74	19.77	19.80	19.66
May	20.03	20.08	20.08	19.95
Jul	20.23	20.20	20.28	20.15
Aug	20.25	20.25	20.32	20.20
Sep	20.20	20.22	20.35	20.20
Oct	20.20	20.20	20.25	20.18
Dec	20.30	20.30	20.30	20.20

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Dec	202.7	201.9	203.0	198.5
Jan	194.8	192.6	194.9	189.3
Mar	187.7	185.3	189.0	182.0
May	182.2	180.2	182.5	177.0
Jul	180.2	178.0	180.5	175.1
Aug	178.5	178.0	179.0	175.0
Sep	179.0	178.7	177.5	178.0
Oct	177.4	178.2	178.0	174.5
Dec	178.2	175.2	177.0	174.5

PORK BELLIES 38,000 lbs; cents/lb

	Close	Previous	High/Low	
Feb	51.90	50.97	52.05	50.60
Mar	51.75	51.10	51.90	50.82
May	53.05	52.47	53.20	52.15
Jul	53.50	52.80	53.50	52.65

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Dec	181/6	181/4	182/0	177/2
Mar	187/4	186/2	187/6	184/0
May	193/0	191/6	193/0	189/4
Jul	197/2	195/6	197/2	193/4
Sep	196/2	194/4	196/4	193/4
Dec	195/6	193/4	195/6	192/2
Mar	202/0	200/2	202/0	199/4

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Dec	302/0	302/2	302/4	0
Mar	313/6	311/0	313/6	309/4
May	308/6	306/0	309/0	304/6
Jul	296/4	293/2	296/4	0
Sep	300/0	296/2	300/0	296/0
Dec	308/0	305/4	308/0	304/4

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Dec	66.10	65.65	66.20	65.35
Feb	63.07	62.15	63.15	61.85
Apr	64.77	64.22	64.95	63.80
Jun	64.62	64.20	64.87	63.87
Aug	61.90	61.72	62.30	61.55
Oct	61.22	61.05	61.62	60.90
Dec	63.00	62.70	63.25	62.85

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low	
Dec	43.30	43.45	43.35	42.60
Feb	41.80	41.90	41.90	41.40
Apr	38.87	38.72	38.90	38.47
Jun	41.75	41.65	41.80	41.35
Jul	42.40	42.55	42.65	42.25
Aug	41.35	41.17	41.50	41.10
Oct	38.42	38.32	38.60	38.30
Dec	39.40	39.30	39.40	39.40

INDICES

REUTERS (Base: September 18 1931 = 100)

Dec 16	Dec 15	mnth ago	yr ago
1697.6	1696.5	1700.5	1637.3

DOW JONES (Base: December 31 1974 = 100)

Spot	132.23	131.96	128.36	115.69
Futures	133.79	133.18	131.52	115.84

CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar and sterling weaker

THE DOLLAR continued to lose ground in currency markets yesterday. Once again it was difficult to establish any real trend because trading volume was kept to minimum ahead of Christmas and the new year.

Wednesday's report by leading economists was rather bearish. Although shedding only a little new light, it implied that realistic action to reduce world trade imbalances could not be put off until after next year's US Presidential election. No further action to significantly reduce US trade and budget deficits increased the risk of provoking the recession that the US authorities have been so keen to avoid.

As one dealer succinctly put it, "The dollar is not exactly flavour of the month." Nor was it likely to be, because a resumption of normal trading volume next month was seen by most people as an opportunity to run short on dollars.

Although the US unit closed above its worst level,it was still very weak. Lower oil prices and better than expected third quarter growth figures helped to provide some support.

But traders were afraid because, although previous dollar falls attracted support from European banks as well as the Bank of Japan, this had been largely ineffective in the absence of heavy support from the US Federal authorities. There was no intervention by any central banks yesterday.

The dollar closed at DM1.6220, just above a record low of DM1.6200 touched during the day, but down from DM1.6305 on Wednesday. Against the yen it fell to Y126.20 from Y127.30. Elsewhere it finished at SFr1.3170 from SFr1.3285 and FFr5.49 compared with FFr5.5275. On Bank of England figures, the dollar's exchange rate index fell from 93.5 to 93.0.

STERLING-Trading range against the dollar in 1987 is 1.8380 to 1.4710. November average 1.7770. Exchange rate index 75.6 against 75.8 at the opening and 75.7 at Wednesday's close. The six months ago figure was 73.0.

Lower oil prices pushed sterling weaker. Traders suggested that the UK authorities were probably relieved to see upward pressure subside, since recent calls to cut interest rates were seen only as a result of the pound's strength, rather than any sound domestic rationale.

Industrial production is growing at a much faster rate than other European nations and analysts saw little justification for further cuts in interest rates.

The pound closed at DM2.9775, down from DM2.9875 and Y231.50 compared with Y233.25. It was also lower against the Swiss franc at SFr2.4175 from SFr2.4350 and FFr10.0775 compared with FFr10.1275. Against the dollar it rose to $1.8355 from $1.8320.

D-MARK-Trading range against the dollar in 1987 is 1.9305 to 1.6220. November average 1.6809. Exchange rate index 151.6 against 146.6 six months ago.

There was no intervention by the Bundesbank at yesterday's fixing in Frankfurt. The dollar was quoted at DM1.6237, down from DM1.6313 on Wednesday.

The dollar's softer tone had already been established in Far Eastern markets, and in the absence of any central bank intervention, the US unit appeared destined for a further decline.

JAPANESE YEN-Trading range against the dollar in 1987 is 159.45 to 126.20 November average 135.90. Exchange rate index 240.9 against 146.6 six months ago.

Short covering lifted the dollar off records lows in Tokyo in thin trading. It touched Y126.00 before recovering to close at Y126.55. This was still down from Y127.05 in New York and Y127.6 in Tokyo on Wednesday. There were no obvious signs of intervention by the Bank of Japan.

Sentiment towards the dollar remained bearish and most dealers remained convinced that a further decline in the new year was inevitable.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Dec.17	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.2030	+1.75	+0.97	±1.5344
Danish Krone	7.85212	7.95533	+1.31	+0.53	±1.5404
German D-Mark	2.05853	2.06409	+0.27	-0.51	±1.0981
French Franc	6.90403	6.98489	+1.17	+0.39	±1.3674
Dutch Guilder	2.31943	2.32309	+0.16	-0.62	±1.5012
Irish Punt	0.768411	0.775985	+0.99	+0.21	±1.6684
Italian Lira	1483.58	1519.81	+2.44	+2.11	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

£ IN NEW YORK

Dec 17	Latest	Previous Close
£ Spot	1.8350-1.8355	1.8260-1.8270
1 month	0.07-0.06pm	0.03pm-par
3 months	0.38-0.35pm	0.28-0.24pm
12 months	2.08-1.98pm	1.18-1.08pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

CURRENCY RATES

CURRENCY MOVEMENTS

OTHER CURRENCIES

*Selling rate

POUND SPOT- FORWARD AGAINST THE POUND

Dec.17	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.8280-1.8410	1.8350-1.8360	0.09-0.07cpm	0.52	0.44-0.39pm	0.90
Canada	2.3918-2.4071	2.3970-2.3980	0.10-0.01cpm	0.28	0.18-0.05pm	0.19

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

EURO-CURRENCY INTEREST RATES

EXCHANGE CROSS RATES

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES

Indecision grips gilts

GILTS WERE caught in a frenzy of indecision according to dealers on Liffe yesterday.

The £1bn issue of 8 p.c. Treasury convertible 1990 stock had been generally regarded as attractive, and it was not unexpected that the stock was sold out yesterday.

Cash trading was fairly steady, but the futures market appeared to be caught between nervousness about the prospects for London interest rates and the improvement in US Treasury bonds.

There was a feeling in the market that the last cut in UK bank base rates was largely forced on the Bank of England and is now probably regretted.

Sterling improved against a weaker dollar yesterday, but lost ground to the D-Mark, giving rise to suggestions that UK base rates will probably be pushed up if the pound continues to decline against the West German currency.

UK economic news was rather ambiguous yesterday, with November unemployment falling a larger than expected 63,500, while the underlying rise in October average earnings was 8 p.c., moving up from the previous level of 7.75 p.c.

At the moment the market has fears about rising inflation, against a background of strong economic growth and rising earnings, and also regards the latest movements in oil prices as confusing.

March long term gilts opened firmer at 116-28 on Liffe and closed little changed at 116-25, compared with 116-11 on Wednesday.

US Treasury bond futures were boosted by falling oil prices and the low level of the Federal funds rate in New York, even though this was largely technical, as severe weather has distorted the flow of money around the US.

March US bonds on Liffe opened firm at 86-11, and closed at 86-19, compared with 85-13

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls-Last Mar	Calls-Last Jun	Puts-Last Mar	Puts-Last Jun
116	2.33	3.45	1.47	3.05
118	1.33	2.49	2.47	4.09
120	0.57	2.01	4.07	5.25
122	0.34	1.27	5.48	6.51
124	0.18	0.63	7.32	8.23
126	0.09	0.42	9.23	10.02
128	0.06	0.27	11.20	11.51
130	0.03	0.17	13.17	13.41

Estimated volume total, Calls 1467 Puts 1128
Previous day's open int: Calls 28071 Puts 14263

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls-Last Mar	Calls-Last Jun	Puts-Last Mar	Puts-Last Jun
82	5.22	5.34	0.48	1.50
84	3.50	4.20	1.12	2.36
86	2.38	3.18	2.00	3.34
88	1.44	2.28	3.06	4.44
90	1.02	1.49	4.28	6.01
92	0.38	1.16	6.00	7.32
94	0.20	0.55	7.46	9.07
96	0.10	-	9.36	-

Estimated volume total, Calls 0 Puts 7
Previous day's open int: Calls 837 Puts 738

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

Strike Price	Calls-Last Dec	Calls-Last Jan	Puts-Last Dec	Puts-Last Jan
15000	21.35	24.50	0.00	0.30
15250	18.85	-	0.00	-
15500	16.35	18.89	0.00	0.69
15750	13.86	-	0.01	-
16000	-	-	-	-
16250	8.97	-	0.12	-
16500	6.69	11.79	0.34	2.59
16750	4.65	-	0.80	-

Estimated volume total, Calls 3 Puts 63
Previous day's open int: Calls 73 Puts 245

PHILADELPHIA SE £/$ OPTIONS

LIFFE- EURODOLLAR OPTIONS

LIFFE £/$ OPTIONS

LONDON SE £/$ OPTIONS

LONDON

CHICAGO

SWISS FRANC (IMM)
SFr 125,000 $ per SFr

	Latest	High	Low	Prev.
Mar	0.7623	0.7625	0.7566	0.7623
Jun	0.7703	0.7705	0.7645	0.7703
Sep	0.7788	0.7785	0.7740	0.7788
Dec	0.7878	0.7875	0.7865	0.7878

THREE-MONTH EURODOLLAR (IMM)
$1m points of 100%

	Latest	High	Low	Prev.
Mar	92.24	92.26	92.23	92.16
Jun	92.01	92.05	92.01	91.94
Sep	91.75	91.79	91.73	91.67
Dec	91.49	91.51	91.47	91.40
Mar	91.25	91.28	91.24	91.17
Jun	91.06	91.07	91.05	90.97
Sep	-	90.90	90.87	90.80
Dec	90.76	90.77	90.75	90.66

STANDARD & POORS 500 INDEX
$500 times index

	Latest	High	Low	Prev.
Dec	247.90	248.60	247.84	247.50
Mar	248.95	250.05	248.35	248.65
Jun	251.25	252.25	251.25	250.25
Sep	-	254.00	253.50	253.60

Contracts & Tenders

$ WORLD VALUE OF THE DOLLAR
BANK OF AMERICA GLOBAL TRADING ECONOMICS DEPT., LONDON

The table below gives the latest available rate of exchange for the U.S. dollar against various currencies as of Wednesday, December,16 . The exchange rates listed are middle rates between buying and selling rates as quoted between banks, unless otherwise indicated. All currencies are quoted in foreign currency units per one U.S. dollar except in certain specified areas. All rates quoted are indicative. They are not based on, and are not intended to be used as a basis for, particular transactions.

Bank of America NT & SA does not undertake to trade in all listed foreign currencies, and neither Bank of America NT & SA nor the Financial Times assume responsibility for errors.

Bank of America Global Trading, London,
New York, Tokyo, San Francisco, Los Angeles, Toronto.
24-hours a day trading capability.
Enquiries: 01-634 4360/5. Dealing: 01-236 9861.

ECU=$US1.26373 SDR1=$US1.38426
As of December,16, at 11.00 a.m.

	3 months	6 months
Eurodollar Libor:	8⅛	8⅛
Sibor:	8¼	8¼

COUNTRY	CURRENCY	VALUE OF DOLLAR	COUNTRY	CURRENCY	VALUE OF DOLLAR	COUNTRY	CURRENCY	VALUE OF DOLLAR
Afghanistan	Afghani	50.60 (o)	Greenland	Danish Krone	6.29	Pakistan	Pakistan Rupee	17.4937
Albania	Lek	5.5367	Grenada	E. Caribbean $	2.70	Panama	Balboa	1.00
Algeria	Dinar	4.67	Guadaloupe	Local Franc	5.5315	Papua New Guinea	Kina	0.8795
Andorra	French Franc / Spanish Peseta	5.5315 / 110.545	Guam	U.S. $	1.00			
Angola	Kwanza	29.918	Guatemala	Quetzal	1.00 (o) / 2.58 (h,i)	Paraguay	Guarani	(o)320.00 / (p)550.00 / (d)877.50
Antigua	E. Carribean$	2.70	Guinea	Franc	340.00			

MONEY MARKETS

Firmer tone

THE UPWARD trend in London interest rates continued yesterday, but trading was generally confined to the short periods as dealers squared positions ahead of the year-end.

Sterling was reasonably steady, but had a nervous undertone on doubts about oil prices, while the attitude of the Bank of England was regarded as helpful in the face of a very large credit shortage.

UK clearing bank base lending rate 8½ per cent from December 4

The authorities provided more than enough help to take out the published underlying shortage. Conditions may improve a little today, but the market generally expects another large shortage.

Three-month interbank rose to 8$\frac{15}{16}$-8$\frac{13}{16}$ p.c. from 8¾-8⅝ p.c. and one-year to 9$\frac{5}{16}$-9$\frac{3}{16}$ p.c. from 9½-9¼ p.c.

The Bank of England initially forecast a money market shortage of £1,300m, but revised this to £1,250m at noon and to £1,350m in the afternoon. Total help of £1,418m was provided.

The authorities offered an early round of help and at that time gave assistance of £516m. This included £266m bills bought outright, by way of £4m local authority bills in band 1 at 8⅜ p.c.; £205m Treasury bills in band 2 at 8⅜ p.c.; £27m bank bills in band 2 at 8⅜ p.c.; and £30m bank bills in band 4 at 8⅜ p.c.

Another £250m bills were bought for resale to the market on January 6 at at a rate of 8$\frac{7}{16}$ p.c.

In further assistance before lunch the Bank of England bought a further £646m bills, including £136m outright, through £80m bank bills in band 1 at 8⅜ p.c.; £26m bank bills in band 3 at 8¼ p.c.; and £30m bank bills in band 4 at 8⅜ p.c.

Another £510m bills were purchased for resale to the market on January 6 at 8$\frac{7}{16}$ p.c.

In the afternoon the authorities bought £181m bills outright, by way of £96m bank bills in band 1 at 8⅜ p.c.; £10m bank bills in band 2 at 8⅜ p.c.; and £75m bank bills in band 3 at 8¼ p.c.

Late assistance of around £75m was also provided.

Bills maturing in official hands, repayment of late assistance and a take up of Treasury bills drained £519m, with the unwinding of repurchase agreements on bills absorbing £1,018m; a rise in the note circulation £190m; and bank balances below target £50m. These outweighed Exchequer transactions adding £455m to liquidity.

In Frankfurt the West German Bundesbank left its credit policies unchanged at yesterday's regular council meeting. The discount rate remained at 2.5 p.c. and the Lombard rate at 4.5 p.c. Call money in Frankfurt was steady at 3 p.c. in comfortable conditions.

FT LONDON INTERBANK FIXING

MONEY RATES

NEW YORK

LONDON MONEY RATES

EUROPEAN OPTIONS EXCHANGE

Series		Feb. 88 Vol	Feb. 88 Last	May 88 Vol	May 88 Last	Aug. 88 Vol	Aug. 88 Last	Stock
GOLD C	$ 480	-	-	75	35 A	-	-	$ 476.10
GOLD C	$ 500	112	12.50	36	24	-	-	$ 476.10
GOLD C	$ 540	34	4	1	12 A	5	22 A	$ 476.10
GOLD P	$ 420	120	2	50	3	-	-	$ 476.10
GOLD P	$ 500	30	26	-	-	3	32 B	$ 476.10
		Dec. 87		Mch. 88		Jun. 88		
SILVER C	$ 700	100	1	-	-	-	-	$ 667
		Dec. 87		Jan. 88		Feb. 88		
EOE Index C	Fl. 160	37	12.50	1	18 A	1	21	Fl. 172.99
EOE Index C	Fl. 165	55	7.50	10	14	3	17	Fl. 172.99
EOE Index C	Fl. 170	268	2.80	62	10	-	-	Fl. 172.99
EOE Index C	Fl. 175	103	0.60	100	8.50	3	12 A	Fl. 172.99
EOE Index C	Fl. 180	136	0.10	73	6.50 A	15	10	Fl. 172.99
EOE Index C	Fl. 185	-	-	69	4.50	-	-	Fl. 172.99
EOE Index C	Fl. 190	-	-	57	3.20	-	-	Fl. 172.99
EOE Index C	Fl. 205	-	-	40	0.80	-	-	Fl. 172.99
EOE Index C	Fl. 210	-	-	100	0.60	-	-	Fl. 172.99
EOE Index P	Fl. 160	31	0.10	50	3.50	-	-	Fl. 172.99
EOE Index P	Fl. 165	60	0.30	231	5.60	1	9.70	Fl. 172.99
EOE Index P	Fl. 170	116	1.10	112	8	40	11	Fl. 172.99
EOE Index P	Fl. 175	98	3	66	10	-	-	Fl. 172.99
EOE Index P	Fl. 180	73	7.50	-	-	22	16	Fl. 172.99
EOE Index P	Fl. 185	38	12.50 B	-	-	2	19	Fl. 172.99
EOE Index P	Fl. 190	-	-	44	19	-	-	Fl. 172.99
EOE Index P	Fl. 255	50	84	29	82	-	-	Fl. 172.99
$/Fl C	Fl. 180	-	-	1	4.20 B	125	4.80	Fl. 183.10
$/Fl P	Fl. 180	162	0.10	61	1.50	365	3.40	Fl. 183.10
$/Fl P	Fl. 185	370	2	77	4	1	6	Fl. 183.10
$/Fl P	Fl. 190	86	6.50	6	7.50	-	-	Fl. 183.10
$/Fl P	Fl. 195	142	11.75	-	-	-	-	Fl. 183.10
$/Fl P	Fl. 200	50	16.50	-	-	-	-	Fl. 183.10
$/Fl P	Fl. 205	137	22.30	-	-	-	-	Fl. 183.10
$/Fl P	Fl. 210	35	27.20	-	-	-	-	Fl. 183.10
		Jan. 88		Apr. 88		Jul. 88		
ABN C	Fl. 35	101	4.60	5	6.50	-	-	Fl. 39.80
ABN P	Fl. 44	100	4.60	-	-	-	-	Fl. 39.80
AEGON C	Fl. 60	58	1.90	20	4.30 A	-	-	Fl. 57.90
AEGON P	Fl. 65	3	7.80	-	-	25	9.50	Fl. 57.90
AKZO C	Fl. 100	285	1.40	204	6.60	20	8.30	Fl. 91.60
AKZO P	Fl. 90	71	3.40	173	7.50 B	62	12	Fl. 91.60
AMEV C	Fl. 60	120	1	-	-	84	1.10	Fl. 37.80
AMRO C	Fl. 60	120	1	32	3.10	-	-	Fl. 56.40
ELSEVIER C	Fl. 50	65	1.30	372	3 A	10	4	Fl. 43.50
ELSEVIER P	Fl. 40	62	1.50	135	3.50	3	5.30	Fl. 43.50
GIST-BROC. C	Fl. 30	10	0.50	459	2	-	-	Fl. 24.60
GIST-BROC. P	Fl. 25	5	1.60	178	3.40	22	4.50	Fl. 24.60
HEINEKEN C	Fl. 120	8	11	39	16.50	-	-	Fl. 127.50
HEINEKEN P	Fl. 120	74	3	2	7.50	-	-	Fl. 127.50
HOOGOVENS C	Fl. 25	5	4.20	100	6	-	-	Fl. 27.70
HOOGOVENS P	Fl. 30	30	3.50 A	-	-	-	-	Fl. 27.70
KLM C	Fl. 30	191	1.30	194	3.10	4	4.70	Fl. 28.90
KLM P	Fl. 27.50	92	1.20	114	2.80	4	4	Fl. 28.90
NEDLLOYD C	Fl. 140	82	3	93	10	-	-	Fl. 126.50
NEDLLOYD P	Fl. 110	97	3	6	7.50 A	2	11.30	Fl. 126.50
NAT.NED. C	Fl. 50	87	1.40	27	4	2	5.60	Fl. 48.50
PHILIPS C	Fl. 30	47	1	147	2.60	27	3.20	Fl. 28.70
PHILIPS P	Fl. 30	106	2.20	284	4	35	4.40	Fl. 28.70
ROYAL DUTCH C	Fl. 200	265	2.20	45	9.50	-	-	Fl. 192.20
ROYAL DUTCH P	Fl. 180	69	1.50	50	5.20	8	10	Fl. 192.20
UNILEVER C	Fl. 120	13	1	201	5.10	7	8.40	Fl. 105.20
UNILEVER P	Fl. 100	131	3.20	31	7.50	-	-	Fl. 105.20

TOTAL VOLUME IN CONTRACTS : :22,261

A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

	%		%		%
ABN Bank	8½	● Charterhouse Bank	8½	Nat Bk. of Kuwait	8½
Adam & Company	8½	Citibank NA	8½	NatWestminster	8½
Allied Arab Bk	8½	City Merchants Bank	8½	Northern Bank Ltd	8½
Allied Dunbar & Co	8½	Clydesdale Bank	8½	Norwich Gen. Trust	8½
Allied Irish Bank	8½	Comm.Bk.N.East	8½	PK Finans. Int(UK)	9
American Exp.Bk	8½	Consolidated Cred	8½	Provincial Trust Ltd	9½
Amro Bank	8½	Co-operative Bank	*8½	R. Raphael & Sons	8½
Henry Ansbacher	8½	Cyprus Popular Bk	8½	Roxburghe G'rantee	10½
ANZ Banking Group	8½	Duncan Lawrie	8½	Royal Bk of Scotland	8½
Associates Cap Corp	10	Equat'l TstC'p plc	8½	Royal Trust Bank	8½
Authority Bank	8½	Exeter Trust Ltd	9	Smith & Williams Secs.	8½
Banco de Bilbao	8½	Financial & Gen. Sec.	9	Standard Chartered	8½
Bank Hapoalim	8½	First Nat. Fin. Corp.	10	TSB	8½
Bank Leumi (UK)	8½	First Nat. Sec. Ltd.	10	UDT Mortgage Exp	¢10.2
Bank Credit & Comm	8½	● Robert Fleming & Co.	8½	United Bk of Kuwait	8½
Bank of Cyprus	9	Robert Fraser & Ptnrs.	9½	United Mizrahi Bank	8½
Bank of Ireland	8½	Girobank	8½	Unity Trust Bank Plc	8½
Bank of India	8½	Grindlays Bank	8½	Western Trust	8½
Bank of Scotland	8½	● Guinness Mahon	8½	Westpac Bank Corp.	8½
Banque Belge Ltd	8½	HFC Trust & Savings	8½	Whiteaway Laidlaw	9
Barclays Bank	8½	● Hambros Bank	8½	Yorkshire Bank	8½
Benchmark Tst Ltd	8½	Heritable & Gen Inv Bk.	8½		
Beneficial Trust Ltd	10	● Hill Samuel	§8½		
Berliner Bank AG	8½	C. Hoare & Co.	8½		
Brit Bk of Mid East	8½	Hongkong & Shangh	8½		
● Brown Shipley	8½	Lloyds Bank	8½		
Business Mtge Tst	9	Meghraj Bank Ltd	8½		
CL Bank Nederland	8½	Midland Bank	8½		
Central Capital	8½	● Morgan Grenfell	8½		
Cayzer Ltd	8½	Mount Bnkg Cpn Ltd	8½		

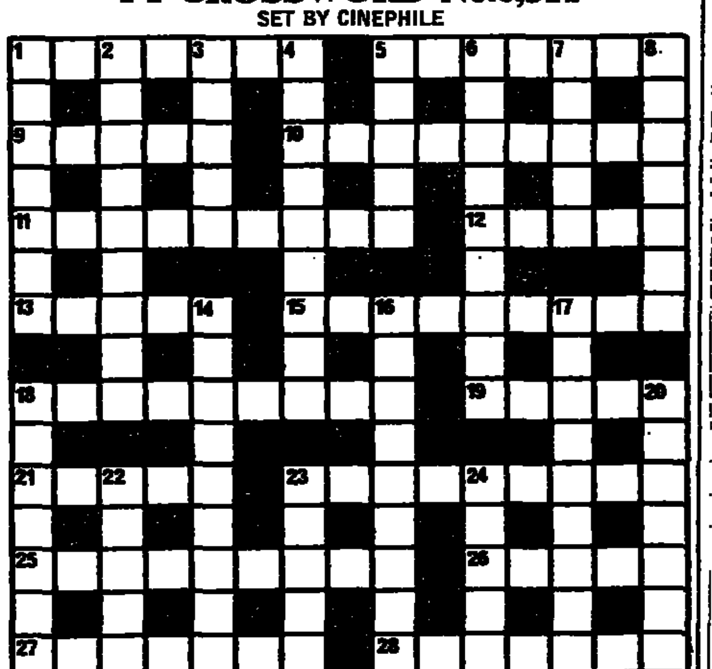
● Members of the Accepting Houses Committee. * 7 day deposits 3.50% Savewise 6.16%. Top Tier-£2,500+ at 3 months' notice 7.81%. At call when £10,000+ remains deposited. ¢ Mortgage base rate. § Demand deposit 3.49%. Mortgage 10% - 10.25%

FT 30	FTSE 100	WALL STREET
Dec. 1363/1375 +5	Dec. 1704/1716 +1	Dec. 1945/1961 -21
Mar. 1387/1399 +7	Mar. 1734/1746 +3	Mar. 1955/1971 -21

Prices taken at 5pm and change is from previous close at 9pm

FT CROSSWORD No.6,511

SET BY CINEPHILE



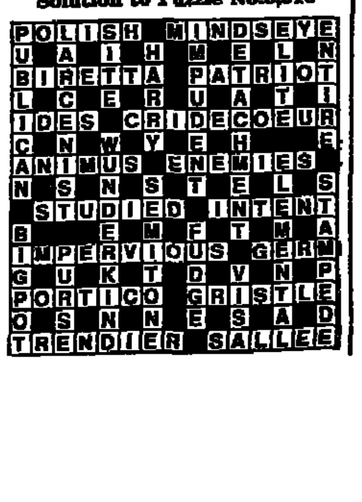
ACROSS

1 A little bit new-fangled, with one preceding (7)
5, 9 Row overhead caused by Mrs Todhunter.....(12)
10, 11 .....for whom very quick players will be needed? (9,9)
12, 13 Burroughs salad with no dressing, perhaps? (5,5)
15 Fruit of Roundheads' victory make a mistake in it (9)
18 Kali is a ship (9)
19, 21 Hunted boar, maybe, unable to raise his spirit? (5-5)
23 See 25
25, 23 Audience concludes with first in land, kindly people (6,3,9)
26, 27 One like a log that won't let the track down? (5,7)
28 Bird returns with some work for Bevanite Tom (7)

DOWN

1 Show bogus claim about the FT (7)
2 Din's grown to expose deaths (9)
3 In infancy Mr Ustinov lived in the principality (5)
4 Aggressiveness on motorway: county leader's in prayer (9)
5 Cat supplies string in row (5)
6 Impossible to maintain maybe changed to be a tunnel (9)
7 Doctor liquid and swallow (5)
8 Dress vainly without variation (7)
14 Phil's upset about coloured man being paid assistant (5,4)
16 Sang romantically of Arden, possibly, in germ (9)
17 Riviera saint coming in to give employment again to old bat (9)
18 Works playfully at two little books in part of Yorkshire (7)
20 Sheepish sequel to giving one a bad name? (7)
22 To much in the bundu evidently (5)
23 Good start where beasts live on egg-white (5)
24 Socialist going to Californian city for winter sports (5)

Solution to Puzzle No.6,510



FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

	Bid Price	Offer Price	+ or -	Yield Gross
Abbey Unit Tst. Mngrs. (a)				
80 Holdenhurst Rd, Bournemouth 0345 717373				
High Income				
American Income	38.3	40.9	+0.1	6.41
Gilts & Fixed Int.	109.7	117.9xd	+0.2	10.16
High Inc Equity	111.0	118.0	+0.9	4.96
Worldwide Bond	186.9	200.1xd	+0.2	4.89
Capital Growth				
American Growth	122.5	131.0	+2.1	1.34
Asian Pacific	49.4	52.8	+0.2	2.61
Assets & Earnings Tst	120.6	128.2xd	+1.6	2.23
Capital Reserve	75.4	76.0	-0.1	1.33
Commodity & Energy	98.1	104.9	-0.3	1.09
European Capital	62.5	66.8	+0.9	1.12
General	142.0	151.8	+2.5	2.96
Japan	79.5	85.0	+0.5	0.00
Mangerinvest	62.8	67.1	+0.9	3.09
UK Growth Acc Units	165.7	176.2	+1.1	1.37
UK Growth Dist	113.7	120.9	+1.0	1.99
U.S. Emerging Co's	31.8	34.0	+1.0	0.00
Income & Growth	219.3	234.5	+1.7	3.83
Ethical Growth	37.8	40.2	+0.4	3.11
Abtrust Management Ltd				
10 Queens Terrace, Aberdeen AB9 1QJ 0224 633070				
20 Chiswell St, London EC1Y 4TY 01-374 6001				
Abtrust UK Growth Fd	28.4	30.2	+0.3	2.76
Abtrust Nth Am Inc (z)	21.1	22.4	+0.2	3.93
Abtrust World Gth Fd	34.6	36.8xd	+0.3	1.02
Abtrust Extra Inc Fd	36.3	37.5xd	+0.2	6.14
The Former Baltic Trusts				
American	36.3	38.7	+0.7	2.34
American Extra Inc	32.7	34.8xd	+0.1	7.67
Australian	15.6	16.7	—	2.04
European Tst	37.8	40.2	+0.5	1.90
Gilt & Fixed Int	22.0	23.5xd	-0.1	10.27
Global Income	31.4	33.5	+0.3	5.80
High Income	49.1	52.3xd	+0.2	5.88

FT UNIT TRUST INFORMATION SERVICE

Scimitar Asset Management Ltd
8 Crosby Sq, London EC3A 6AQ 01-588 6993/4/5

Scimitar Global Gth Ac	26.9	28.7	+0.1	–
Do. Income	26.8	28.6	+0.1	0.19
Scimitar European Acc	20.3	21.6	+0.4	–
Do. Income	20.3	21.6	+0.4	0.11
Scimitar UK Eq Inc Acc	32.4	34.2	+0.8	–
Do. Income	31.2	32.9	+0.8	5.78
UK Cap Gth Acc	21.0	22.2	+0.4	0.75
Scimitar Pac Basin Acc	25.8	27.5	+0.4	–
Scimitar Mangd Exempt*	130.8	136.3	+4.3	–

*Unauthorised

Scottish Equitable Fund Mgrs. Ltd(z)
28 St Andrews Sq, Edinburgh 031-558 1052

Intal Income Units	118.5	126.1	–	3.04
Intal Accum Units	181.3	192.9	–	3.04
UK General Acc	35.5	37.8	+0.3	3.11
UK General Inc	33.9	36.3	+0.2	3.11
American	25.9	27.7	+0.5	0.64
European	33.8	36.1xd	+0.4	0.94
Japan	51.6	55.2xd	+0.5	–
Technology	32.6	34.9	+0.2	1.42
Performance Trusts				
Far East Perf Tst	14.7	15.8	–	0.64
High Inc Perf Tst Inc	22.3	23.9xd	+0.4	5.37
High Inc Perf Tst Acc	22.8	24.4xd	+0.4	5.37
Worldwide Tact Perf Tst	25.3	27.1	+0.4	–

Scottish Life Investments(z)
19 St Andrew Sq, Edinburgh 031-225 2211

Nelson (UK Equity)	194.1	207.6	+1.7	2.97
Columbus (America)	116.7	124.9	+1.3	1.43
Marco Polo (Pacific)	187.2	200.3	+0.9	0.41
Da Vinci (European)	203.9	218.1	+2.3	1.89
Drake	47.7	51.1	+0.6	3.10

Scottish Mutual Investment Managers Ltd
109 St Vincent St, Glasgow G2 5HN 041-248 6100

UK Equity	186.1	198.0	+2.4	3.30
UK Smlr. Cos. Equity	185.9	197.8	+3.6	2.52
UK Special Situations	52.0	55.4	+0.6	3.46
Income Plus	48.8	52.0	+0.1	6.35
European	154.2	164.1	+1.1	1.88

INSURANCES

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Five to Fifteen Years

Over Fifteen Years

BRITISH FUNDS – Contd

Undated

Index-Linked

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base month for indexing, ie 8 months prior to issue. RPI for March 1987: 100.6 and for October 1987: 102.9

(rebased at 100 January 1987 conversion factor 3.945).

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

UNIT TRUST NOTES

LONDON SHARE SERVICE

AMERICANS – Contd

1987 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
39	21	Rep NY Corpn $5	21xd	–⅛	$1.16	–	3.0
18¼	8¾	Rockwell Intl. $1	9⅞	——	66c	–	3.7
30⅝	16¼	Sara Lee $1(1/3)	19¾xd	+¼	$1.00	–	2.8
11⅝	8¾	Saul (B. F.) $1	9⅛	——	20c	–	1.2
27½	2¼	Southwestern Bell $1	19	——	h$2.32	–	6.7
22¼	994p	Staley Continental	10⅞	–⅛	80c	–	4.0
44⅞	21⅞	Sun Co. Inc. $1	27⅞	+½	$3.00	–	5.9
42¼	22¾	TRW Inc. $0.625	26½xd	+1¼	h$1.60	–	3.3
37⅞	21⅝	Tenneco $5	22⅞xd	——	$3.04	–	7.3
220	149½	Do. 10pcLn.Stk. 91-5	155xd		10%	–	14.7
29⅝	15⅞	Texaco $6.25	19¼xd	+⅛	$3.00	–	8.5
74⅞	36⅞	Time Inc. $1	42⅝xd	+1⅛	$1.00	–	1.3
20⅞	11	Tracor $0.33(1/3)	17⅜xd	+⅛	40c	–	1.3
30⅛	15¼	Transamerica $1	15¼xd	–⅜	$1.84	–	6.6
14⅜	1¼	Transworld Corp $5	829p	–21	20c	–	1.3
27⅛	12¼	TRINOVA Corp.	16⅞	+⅛	56c	–	1.8
24⅝	12⅝	♥USX $1	16½	–¼	$1.20	–	4.0
37⅞	16⅞	Utd. Technologies	18⅝xd	+⅜	$1.40	–	4.1
38⅝	25⅞	US West‡	28	+½	$3.28	–	6.4
30½	17⅛	Waste Management $1	20¼xd	+⅝	–	–	–
31⅜	11⅝	Whirlpool $1.0	13	+½	–	–	–
37⅞	16⅞	♥Woolworth $3½	17⅞	–⅛	$1.32	–	4.0

CANADIANS

1987 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
691p	227p	ABM Gold Corp ‖	317p	–17	–	–	–
26¼p	10p	♥Abbot Energy Corp	16½p	——	–	–	–
18⅛	506p	♥Amer. Barrick Res	11⅞	–⅝	–	–	–
141p	6p	American Lightwave	6½p	——	–	–	–
122p	33p	♥Anmeno	41p	–1	–	–	–
117p	39½p	Augustio Explo	54p	——	–	–	–
19⅜	10⅝	Bk. Montreal ‖	11⅛xd	–¼	$2.00	–	7.5
10½	488p	Bk. Nova Scot.‖	520p	–13	72c	–	5.8
20⅝	15	BCE ‖	15⅜	——	$2.40	–	6.5
10⅜	511p	♥Bow Valley‖	566p	+12	♦40c	–	2.9
20	10⅛	♥Brascan‖	10⅞	+⅛	88c	–	3.4
609p	197p	♥Breakwater Res.	213p	–12	10c	–	2.0
12¾	411p	Campeau Corp ‖	701p	——	–	–	–
11⅝	734p	Can.Imp.Bk. $2	832pxd	–15	$1.08	–	5.4
14	792p	Can. Pacific ‖	909p	+10	60c	–	2.7
42½	37½	Do. 4pc Deb £100	41½xd	——	4%	–	9.6
827p	332p	Central Capital "A" ‖	483p	——	–	–	–
152p	28¼p	Danbus Res	46p	——	–	–	–
780p	423p	Derlan Inds	460p	——	11.75c	–	1.1
18	756p	♥Echo Bay Mines	12⅝	–⅞	20c	–	0.7
68p	26½p	Energex Minerals	29p	–2	–	–	–
230p	66p	Euro-Asia Capital Ltd.	88p	——	–	–	–
821p	283p	♥Galactic Resources	294p	——	–	–	–
69p	4¾p	Global Data Systems	27p	–4½	–	–	–
873p	260p	Granges Explo‖	416p	–21	–	–	–
19½p	7½p	♥Gt. Pacific Res.	8½p	——	–	–	–
14½	560p	♥Gulf Canada‖	686p	–20	52c	–	3.2
14⅛	782p	♥Hawker Sid Can‖	837p	–15	96c	–	4.8
740p	332p	Henlys Group	353p	+21	–	–	–
14⅛	767p	♥Hudson's Bay ‖	780p	——	60c	–	3.2
38¾	21⅛	♥Imperial Oil‖	21½	–⅞	s$1.60	–	3.1
14¼	764p	Inco‖	10⅞	——	US$0.20	–	1.0
230	14½	♥Intl. Corona Res.	24⅛	+¼	–	–	–
785p	431p	♥Inland Nat. Gas $1	431p	–6	60c	–	5.8
10¾	385p	♥Lacana Mining Corp ‖	551p	–44	Q15c	–	1.1
756p	129p	Madeleine Mines	229p	–5	–	–	–
2456p	102p	♥Muscocho Explo	152p	——	–	–	–
11⅜	485p	♥Nu-West Business Syst.‖	504p	–8	–	–	–
623p	183p	♥Nevada Goldfields	195p	–12	–	–	–
251	696p	♥Rio Algom	790p	+6	$1.30	–	6.9
19⅛	11¼	Royal Bk. Can. ‖	11¾	–⅛	$2.08	–	7.4
403p	135p	♥Royex Gold Mining ‖	317p	+9	–	–	–
52¼	27¼	Seagram‖	31⅛	–⅛	US$1.00	–	1.8
731p	235p	♥Sonora Gold Corp‖	369p	–11	–	–	–
208p	21¼p	Spiral Eng.	25p	+3½	–	–	–
15⅞	10	Toronto-Dom. Bk.‖	11⅞xd	–⅛	84c	–	2.9
228p	19p	♥Trans Atlantic Res ‖	33½p	——	–	–	–
10⅛	591p	♥Trans Can Pipe	660p	–5	$1.12	–	7.1
200p	115p	Varity Corp‖	132p	——	8	–	–

BANKS, HP & LEASING

1987 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
259	128	ANZ $A1	139	+1	Q21c	♦	6.1	♦
*273	175	Allied Irish	210	+10	†Q61.6%	2.8	6.7	7.3
*£16¼	£10½	Algemene Fl.10	£11½	——	Q2.7%	2.1	7.1	6.7
*128	53	Anglo Irish	58xd	——	Q19.1%	♦	6.7	♦
108	72	Ansbacher (H.) 1p	72	——	N2.0	–	3.8	–
£49¼	£24¼	Banco de Bilbao S.A.	£33½	——	♦Q38%	3.0	2.9	11.4
£34½	£23½	Banco de Santander	£27	+3	†Q19.1%	2.7	2.0	–
*245	175	Bank Ireland Ir£1	210	+10	†Q15.7%	2.9	6.7	7.3
£15	£11½	Bank Leumi	£15	——	–	–	–	–
350	240	Bk.Leumi (UK)£1	350	——	12.4	–	4.9	–
643	395	Bank Scotland £1	504	+3	†16.5	3.4	4.5	8.9
88	65	Bank of Wales	70	+5	♦†a2.4	2.2	4.8	13.3
655	413	Barclays £1	433	–2	†21.0	3.8	6.6	4.9
*83	35	Benchmark 20p	38	+1	1.63	1.6	5.9	15.0
620	423	Brown Shipley £1	428	+5	†10.0	–	3.2	–
135	40	Business Mort Tst.	43	+1	2.0	2.3	6.4	9.5
*480	290	Cater Allen £1	340	——	20.15	–	8.1	–
433	137	‡Chancery Securities	190xd	+5	†3.3	2.4	2.4	21.1
£26¼	£14	Commerzbk DM10	£15	——	Q18%	–	4.2	–
*£27	£18	C'hgn.Hdk.Kr100	£19	——	♦Q15%	2.9	7.4	4.6
*£285½	£129¾	Deutsche Bk DM50	£139	–1	Q24%	–	2.9	–
359	165	First Nat. Fin. 10p	232	–1	†6.39	3.1	3.8	9.2
190	103	FNFC 6.3pc CnRedPref	126	——	6.3%	–	6.8	–
68½	14	First Pacific Hldg.	18	——	Q2.31c	6.4	7.3	2.1
£17¼	£11½	Fuji Bank Y50	£13¼	——	Q15%	5.0	0.2	83.9
*418	298	Gerrard & National	325	——	17.0	–	7.2	–
270	110	Goode Durrant 5p	110	——	♦2.5	–	3.1	–
124	83	Guinness Peat	88	–1	♦2.65	♦	4.2	♦
386	222	Hambros 20p	238xd	+4	8.2	–	4.7	–
800	398	Hill Samuel	800	——	♦14.8	–	2.5	–
*87	46	HK & Shang. HK$2.50	49	+1	tQ37c	–	5.4	–
*565	411½	Joseph (Leo) £1	433xd	——	g13.33	–	4.2	–
194	134	King & Shaxson 20p	158	——	8.75	–	7.6	–
*610	277	Kleinwort, Benson L.	334	+26	14.0	–	6.1	–
435	218	Lloyds £1	222	–1	†h12.0	4.5	7.4	3.8
763	142	MCorp $5	144	——	–	–	–	–
*567	308	Midland £1	368	+3	g20.1	4.5	7.5	4.1
593	208	Morgan Grenfell £1	264	+13	†10.5	–	5.4	–
*280	126½	Nat Aust. Bk. A$1	175xr	+1	Q24.75c	♦	5.7	♦
*794	498	Nat. West. £1	530	–2	†20.5	4.6	5.2	5.7
£420	£123	Ottoman Bank £20	£185	+5	Q80%	–	4.3	–
175	48	Rea Bros. Group	58	——	1.25	–	4.1	–
215	113	Rothschild (J) Hldgs.	149	+2	6.0	3.1	5.5	7.9
128	51	Do. Warrants	68	——	–	–	–	–
169	66¼	Rothwells	70	–2	Q12.5c	7.1	7.4	1.9
440	273	Royal Bk. of Scotland	329xd	——	12.7	♦	5.4	♦
288	125	Scandinavian Bk Units	138	–2	u8.0	2.5	8.4	5.5
£17	705	Schroders £1	750	——	13.5	–	2.5	–
£13⅞	590	Do. £1 N/V	700	——	13.5	–	2.6	–
£27¾	£12⅞	Sec. Pacific $10	£13	+⅛	Q$1.80	–	7.6	–
842	398	Standard Chartd. £1	475	+2	35.0	1.9	10.1	5.9
153	99	TSB	108	+2	W4.26	3.2	5.4	7.7
164	91	‡TSB Channel Islands	139	+1	5.4	♦	5.0	♦
£10⅛	680	Union Discount £1	793	——	40.0	–	6.9	–
*575	265	Warburg (S.G.)	313xd	+8	†10.0	–	4.4	–
195	102	Do 6pc A Cnv Prf.	115	+2	6%	–	7.1	–
£37⅞	£21	Wells Fargo $5	£21½	+⅜	Q$2.00	–	5.1	–
316	156	Westpac $A1	185	+4	Q28c	2.5	5.9	6.7
560	290	Wintrust 20p	443	——	6.2	4.2	1.9	17.1

Hire Purchase, Leasing, etc.

1987 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
240	150	Anglo Leasing 10p	155	+5	L2.6	6.3	2.3	9.5
76	44	Cattle's (Hdgs) 10p	52	–1	†h2.0	3.9	5.3	12.4
296	132	Comb Lease Fin 50p.	140	——	†1.35	8.2	1.3	9.6
£106¼	£34⅞	Cie B'cre Fr.100	£36⅝	–⅛	Q10%	–	2.8	–
85	21	Equity & Gen 5p	28	——	†1.05	2.2	5.1	10.9
111	73	Lon. Scot. Fin. 10p	89	–1	†3.0	2.0	4.6	13.0

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES – Contd

ELECTRICALS

ENGINEERING

ENGINEERING – Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INSURANCES

LONDON SHARE SERVICE

INSURANCES — Contd

1987 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
516	300	Pearl Group 5p	353	+5	†10.5	–	4.1	–
*1011¼	733	Prudential	804	+4	†29.0	–	4.9	–
598	350	Refuge 5p	408		15.75	–	5.3	–
595	345	Royal	401	+12	†h15.5	–	5.3	–
110	75	Sakire Ins. Invs.	75	–5	–	–	–	–
*345	168	Sedgwick Group 10p	228	–1	12.0	1.7	7.5	9.4
339	138	Stout Burrill J.10p	155	+12	†9.0	2.0	8.0	8.6
612	303	Sturge Hldgs 20p	323		†46.0	2.5	2.5	21.2
£12⅞	645	Sun Alliance	861	+23	†23.5	–	3.7	–
£13	865	Sun Life 5p	898		†28.5	–	4.3	–
£69¼	£36¼	♥Taisho M EDR	£44¼	+¼	q010%	–	1.0	–
£22¼	£12⅞	Torchmark $1.00	£13	+¼	Q$1.00	–	4.2	–
410	236	Trade Indemnity	357	+2	†4.3	–	1.6	–
£34	£17¾	Travelers $1.25	£18¼	+½	$2.28	–	6.7	–
£30⅛	£15¾	USF & G Corp $2.50	£16¼	+½	Q$2.40	–	8.4	–
£33⅞	£15½	USLIFE Corp. $1.0	£16⅛	+½	Q$1.28	3.2	4.3	7.2
738	555	Wtld Friendly B 10p	560	–10	21.0	–	5.1	–
464	192	Willis Faber 12½p	230	+7	†10.75	2.4	6.4	8.8
128	41	Windsor Secs. 10p	58	–5	†0.7	1.9	1.7	–

LEISURE

1987 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
95½	18	A & M Group 10p	19		–	–	–	–
242	77	Airtours 10p	78		Ld5.4	♦	10.1	♦
*549	253	Anglia TV	310	+6	†g11.25	3.3	5.0	8.6
194	77	♣Aspinall Hldgs. 10p	160		†6.0	1.2	5.1	21.9
141	62	♣Avesco 1p	73	+2	0.5	6.7	0.9	20.6
72	40	♣BCE Hldgs 5p	47	+1	Ld1.0	♦	2.9	♦
300	132	Barr & W.A.T. 'A'	160	–25	†8.0	1.4	6.8	13.0
98	22	Bond Media	22	–2	–	–	–	–
235	165	Boosey & Hawkes	172	–1	–	–	–	–
83	28	♣Border T.V.	41		1.4	♦	4.7	♦
*439	43½	Brent Walker 10p	277	–3	†8.5	2.2	4.9	13.4

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PAPER, PRINTING, ADVERTISING — Contd

PROPERTY

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TEXTILES — Contd

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND — Contd

Finance, Land, etc

OIL AND GAS

OIL AND GAS — Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES — Contd

Tins

Miscellaneous

1987 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
133	56	Leading Leisure 5p	67	+1	0.9	3.1	1.8	19.4
95	60	Lynx Tech. 5p	65		b–	–	–	7.5
130	95	M.L. Laboratories 1p	108	+1	–	–	–	–
180	87	Medirace 10p	87		–	–	–	♦
98	38	♥Oceana Gold IR 2p	46		–	–	–	–
48	40	Propeller 1p	43		W–	–	–	13.4
*82	17	Publishing Hldgs.5p	28xr		–	–	–	16.8
128	80	Seacon Hldgs.	80		–	–	–	12.2
87	38	Theme Holdings	38	–6	1.0	1.9	3.6	20.4
36	28	Tomorrows Leisure 20p	31		–	–	–	12.4
210	130	UPL Group 10p	132	+2	L2.41	2.8	2.5	19.8
140	103	Unit Group	125	+2	R4.6	2.5	5.1	(8.8)
85	85	Video Tape Recording 5p	85		L2.3	2.3	3.7	12.2

THIRD MARKET

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 27 per cent and allow for value of declared distribution and rights.

- ● Tap Stock
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Dealt in under Rule 535(3).
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ♣ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xR ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	63	–2
Craig & Rose £1	588	
Finlay Pkg. 5p	83	
Holt (Jos) 25p	£11⅛	

For IoM Steam see Shipping

IRISH

Fund 11¼% 1988	£100⅝	
Nat. 9¾% 84/89	£99⅝	+⅛
Fin. 13% 97/02	£113⅛	
Arnotts	0	–30§
CPI Hldgs.	53	
Carrol Inds.	145	–5
Dublin Gas	40#	
Hall (R. & H.)	105	
Heiton Hldgs.	40	–3
Irish Ropes	158¼	

For Norish see Foods

Unidare	300	

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	42
Amstrad	20
BAT	57
BOC Grp	46
BSR	13
BTR	33
Barclays	52
Beecham	52
Blue Circle	44
Boots	28
Bowaters	41
Brit Aerospace	42
Brit. Telecom	28
Burton Ord	32
Cadburys	30
Charter Cons	41
Comm Union	40
Courtaulds	42
FKI Babcock	24
FNFC	31
Gen Accident	105
GEC	22
Glaxo	155
Grand Met	50
GUS 'A'	150
Guardian	110
GKN	36
Hanson Tst.	19
Hawker Sidd	55
ICI	145
Jaguar	42
Ladbroke	40
Legal & Gen	33
Lex Service	35
Lloyds Bank	30
Lucas Inds	62
Marks & Spencer	24
Midland Bk	47
Morgan Grenfell	37
NEI	15
Nat West Bk	67
P & O Dfd	65
Plessey	28
Polly Peck	36
Racal Elect	30
RHM	40
Rank Org Ord	65
Reed Intnl	50
STC	29
Sears	18
TI	35
TSB	16
Tesco	22
Thorn EMI	64
Trust Houses	28
T&N	22
Unilever	62
Vickers	22
Wellcome	47
Property	
Brit Land	32
Land Securities	55
MEPC	54
Peachey	47
Oils	
Brit Petroleum	33
Britoil	28
Burmah Oil	52
Charterhall	7
Premier	10
Shell	135
Tricentrol	15
Ultramar	24
Mines	
Cons Gold	125
Lonrho	29
RTZ	48

A selection of Options traded is given on the London Stock Exchange Report Page

LONDON STOCK EXCHANGE

Account Dealing Dates			
*First Dealings	Option Declarations	Last Dealings	Account Day
Dec 7	Dec 17	Dec 18	Jan 4
Dec 21	Jan 7	Jan 8	Jan 18
Jan 11	Jan 21	Jan 22	Feb 1

*New time dealings may take place from 9.00 am two business days earlier.

Takeover moves and fresh corporate raiding fuel another rise in equities

A FRESH OUTBREAK of corporate raiding and takeover activity in the UK equity market fuelled a renewed surge yesterday, pushing the FT-SE 100 share index above 1700 for the first time in five weeks. All main indices completed unbroken five-day runs with "Footsie" showing a further gain of 16.4 at 1706.2, the highest closing level since November 2.

The advance was initially inspired by Wall Street's renewedstrength overnight wehen the Dow Jones index ended sharply better after early indecision. Traders here regarded this as a successful conclusion of a test of the US market's current resilience.

A £2bn takeover attempt by **Barker and Dobson** of **Dee Corporation,** one of the UK's largest Food retailing groups, together with another market raid by **British Petroleum** on besieged **Britoil** added spice. And the situation was further enlivened when Alan Bond, the Australian entrepeneur, revealed a 5 per cent shareholding in leading Brewery group **Allied-Lyons.** Expanding Barker and Dobson has offered share and cash terms for the much larger Dee Corporation.

The oil sector once again was a hive of activity with Britoil the undoubted queen but considerable interest was also shown for consumer-related issues, especially of the food and brewery variety. However, many Alpha stocks went higher in conditions described by marketmakers as "desperately thin and decidedly squeezy".

A fresh batch of economic numbers including the latest investment intentions survey – this confirmed that manufacturing output was experiencing real growth and taking up the running from construction and other parts of UK industry – contributed to the feeling of revived optimism. The rise of only 1.1 per cent in unit wage costs during the three months to October was an indication that higher earnings were being borne by increased productivity.

UK Government securities recovered strongly behind US bonds which moved up sharply overnight on the view that weakening crude oil prices would allay fears of increasing inflation. The longs were up nearly a point at one stage, although interest was confined largely to the shorter end of the market.

Renewed demand exhausted the authorities' remaining supply of the new tap stock, **Treasury** 8 per cent Convertible 1990, at 98⅜, after the Government Broker had sold stock at 98¼ and 98⅜. The market was not too worried about the latest economic data but later turned back ahead of today's money supply statistics, due to be announced at 11.30 am.

Final gains among the longs were eventually trimmed to a maximum of ⅜ while shorter issues closed only slightly firmer on the day. Index-linked moved similarly to conventional Gilt issues and ended around ½ higher.

Britoil remained the focus of attention in an oil and gas market where activity was being spurred on by takeover news – both actual and rumoured – another major decline in crude oil prices and further big buying of **BP** "new" shares.

Britoil shares opened at around the 410p level but moved sharply higher minutes later as securities house BZW, assisted by Hoare Govett and Goldman Sachs, launched a third raid on the shares. The intention was to buy a further 10 per cent stake of the company to add to its 14.95 per cent holding.

The trio bid 450p a share for the 50.4m shares in an operation that was completed in only a few minutes. Britoil's shares moved above the 450p briefly, touching 452p, but then fell back to close a net 16 up at 422p. Turnover in Britoil totalled 141m.

The price paid by BP compares with the 300p offered for the 14.95 per cent stake last Monday week and the 350p paid by **ARCO** for its 7.7 per cent stake when it raided Britoil last Friday. At the current level Britoil is valued in excess of £2 bn. Under the Takeover Panel's rules BP cannot buy any more Britoil shares for seven days but can launch a full-scale offer for the company.

Dealers are now awaiting ARCO's response to the latest development. "Don't blink, you could out on another raid or bid" said one trader in Britoil shares.

The BP/Kuwait Investment Office saga rumbled on after Wednesday evening's announcement that the KIO had increased its stake in BP to over the 15 per cent mark – a move which surprised many oil sector observers who had thought the KIO would settle for 14.99 per cent. There was another big turnover in BP with the "new" – again thought to have been bought by the KIO – finally 70½p after a turnover of over 47m shares. BP "old" were 5 lower at 239p, on a turnover of almost 9.5m, with sentiment here upset by flagging crude oil prices.

Brent crude for January delivery dropped below the $16 a barrel level for the first time this year. Other oil shares also came under pressure from weak crude prices. **Enterprise** were 14 down at 235p and **LASMO** 18 lower at 251p. **Tricentrol,** where French oil group Elf have bid 145p a share in cash – a move rejected by Tricentrol's board – initially edged up to 170p amid speculation of a counter to ELF's offer, but later fell back to end a net 5 lower at 163p, with turnover reaching 3.5m shares.

A £2bn bid by John Fletcher's confectionery and food retailer, **Barker and Dobson,** for the much-larger retailer **Dee Corporation,** chaired by Alex Monk, was a major surprise. B & D has offered a mix of shares and cash, and Dee's shares responded with a jump of 54 to 230p, after 247p. It was suggested that the B & D offer had a fair chance of succeeding if **Associated British Foods** was to pledge its 15 per cent stake in Dee to Barker and Dobson.

Associated British Foods, reflecting the sharp rise in the value of its Dee stake, touched 320p prior to closing 15 higher at 312p while Barker and Dobson shed 12 to 153p.

Grand Metropolitan, the UK brewer to food major, pleased the market with a 24 per cent increase in pre-tax profits for the year. City analysts had opted for profits within a band of £450m to £460m and the group revealed a median figure of £456m. The shares of Grand Metropolitan traded briskly (some 4.8m changed hands) and closed 12 higher at 422p.

Other Brewery leaders took heart from Grand Metroplitan's performance and recorded good rises, although volume was thin. The exception was **Allied Lyons,** which advanced strongly to end 17 higher at 355p after a turnover of around 4.9m shares. Excitement was aroused by the announcement that the Australian-based Bond Corporation had increased its holding in the company to a disclosable 5 per cent. Market speculation was that Bond Corporation had attempted to increase this stake yesterday.

STC dipped 5 to 229p on a turnover of 7.2m shares, after Keith Sykes, electronics analyst at Smith New Court, lowered his profits forecast for the company. A group of analysts were said to have met STC representatives yesterday.

Racal performed strongly and moved up 5 to 230p - turnover was around 2m shares - with dealers citing a chart buy signal and talk of a "switch" into the shares from **Plessey.**

The latter, one of the market's busiest stocks in recent days, were a shade easier at 156½p with more than 7m shares going through the system.

Blue Circle Industries, the major UK-based building materials group which is currently bidding for Birmid Qualcast, slipped 6 to 321p after announcing fresh overseas expansion; BCI is paying some £73m for the privately-owned Swiss concern Romag. The latter's main UK subsidiary is the Ockley Brick company and BCI intends to finance the deal via the placing of 75m new Convertible redeemable preference shares.

BCI's boosted other UK brick producers with **Steetley** forging ahead to close 18 higher at 318p. **Ibstock Johnsen** regained composure as a sizeable line of stock was cleared and ended 12 up at 154p. **Baggeridge Brick** rose 8 to 245p.

Banks made progress early but came off their best levels as the session wore on. But **NatWest** settled a shade off on balance at 538p after announcing an £80m cash injection into County NatWest, its investment banking subsidiary, a 9.5 per cent holding in Blue Arrow, and details of its losses since the market crash in October.

Merchant banks came in for strong support after the latest spate of bids and market raids. **Kleinwort Benson** were particularly favoured and jumped 26 to 314p.**Singer and Friedlander** gained 9 to 63p following rumours of stakebuilding.

The insurance sector was given another considerable boost by persistent market chatter that a major takeover bid in the sector is imminent.

Composites included numerous outstanding performers, notably **Commercial Union** where there was increased speculation of a raid or bid from West Germany's Allianz or a "down-under" predator; CU shares added 5 at 360p after a turnover of 1.9m shares.

Brokers showed some impressive rises across the board, after Press comment on the possibility of another US bid in the sector following St Paul's agreed offer for Minet. **Sedgwick** moved up to 225p, before dipping back to close a fraction off at 220p,after announcing a $200m eurocommercial loan "to refinance the group's existing borrowings and provide resources for general business purposes".**Willis Faber** rose 7 to 230, after 238p, and **Hogg Robinson** a further 9 to 150p.

International Colour Management, which, via hi-technology provides colour continuity for various consumer products, staged a successful market debut, the shares opening at 93p and moving up to 100p which compares with a placing price of 85p. Engineering concern **How Group** also staged a bright debut, closing at 71p against a placing price of 60p. Third Market newcomer **Staks** touched opened at 18p and touched 25p prior to closing at 24p. **Goodman Fielder** were quoted at 106p following the London listing.

The Building Material Producers' survey forecasting another good year for the sector rubbed off on many leading issues and prices moved ahead strongly as stock shortages became increasingly apparent. **Redland** were particularly firm and rose 17 to 418p, while **RMC** put on the same amount to 414p. **Magnet** rose 34 late to 233p. Among Construction issues, **Crest Nicholson** were in demand at 191p, up 10 and **Barratt Developments** added 4 to 183p. Elsewhere, **Heywood Williams** gained 17 to 232p and **Attwoods** put on 27 to 238p.

In the Chemical sector, **Allied Colloids** continued to respond to a broker's recommendation and closed 7 higher at 115p. **Foseco,** an old takeover favourite, put on 13 to 214p.

A profits downgrading by Citicorp Scrimgeour Vickers stores analyst Nick Budd hit **Dixons** share price which fell back to 194p before settling a net 7 off at 195p on a turnover of 10m shares. The Citicorp analyst has lowered his forecast of current year pre-tax profits to £120m and that of the following year to £140m.

Citicorp Scrimgeour are also thought to have turned bearish on **Woolworth,** which owns the Comet electrical retailing group; Woolworth shares lost 9 to 244p after a turnover of 2.1m shares. **Storehouse** initially rose to 270p - still boosted by rumours of a counter to the Benlox offer which closes today - but later eased to close unchanged on the day at 264p.

Some excellent trading news boosted many of the electrical issues. **Audio Fidelity** put on 6 to 82p in the wake of the sharply increased preliminary profits which, at £745,000, compared with £185,000. **Quest Group's** interim figures pleased the market and the shares moved up 7 to 84p.

Engineers ended the day with several outstanding movements. **GKN** featured in the leaders, closing 26 to the good at 304p, but the volume of trade (some 1.2m shares) left a lot to be desired. **VESEL,** up 17 at 432p, reflected a revival of Canadian submarine order hopes while bid speculation presisted in **RHP** which advanced 12 to 192p.

Barker and Dobson's surprise offer for Dee Corporation dominated Foods, and also sparked revived interest in several of the sector's old takeover favourites, notably **Kwik Save,** 6 up at 303p and **Bejam,** 8 to the good at 179p. **Argyll,** and active market on Wednesday, gained 9 to 199p, while **Tesco,** in which some some 9.8m shares were traded, including a block of 3.9m shares at 156p, closed unchanged at 158p. **Watson and Philip** gained 8 to 203p following good annual figures.

A firm Hotel sector showed **Trusthouse Forte** 16 higher at 231p and **Ladbroke** 8 better at 347p.

International stocks managed to shrug aside a slightly better trend in sterling against the US dollar with most quotations edging higher in yet another slow trading session. **Glaxo,** however, were a lively market, closing a few pence higher at 974p after a good two-way business; some 5.7m shares were traded. A fresh advance of 15 to 409p in **Reed International** gave rise to a revival of Rupert Murdoch stake building speculation. **Wellcome** advanced afresh to 394p before profit-taking brought the price back to a close of 387p, only 3 higher on the day.

CH Industrials, scheduled to reveal interim figures today, encountered buying interest and moved ahead to close 12 higher at 132p. **Diploma,** which is seeking approval of shareholders to buy in up to 14.99 per cent of its own shares, advanced 11 to 197p. Bid hopes enlivened demand for **Sale Tilney,** up 12 at 215p, while **Aim Group,** reflecting the bumper half-year results, put on 20 to 195p. **Christies International,** a good market of late, moved up 14 further to 373p in the wake of the company's announcement of a £50m increase in the Autumn auction sales. **Reuters B** firmed 11 to 453p helped by US influences. **Cookson** were actively traded (5.3m) and closed 11 to the good at 506p; following a recent visit to the company, County NatWest, the securities house, has increased its 1987 profits forecast to £77m and regard the share rating as much too low.

Jaguar advanced on a combination of US and domestic institutional support to close 14 higher at 297p. **Lucas** firmed 10 to 527p.

In a firm Property sector, **Hammerson** A featured with a rise of 19 to 480p, mainly reflecting demand emanating from one source. **Rosehaugh** and **Stanhope,** partners in the Broadgate development surrounding London's Liverpool Street station, both made good progress in the wake of the official Broadgate opening, the former rising 32 to 545p and the latter 16 to 168p. Elsewhere, **Parkdale** gained 13 to 127p on news that Berkeley and Hay Hill Investments had increased its holding to 6.29 per cent.

Among Financials, **M and G Group** jumped 47 to 233p on the annoucement that Ensign Trust had reduced its stake in the company to 3.8 per cent via the sale of 3.25m shares at 230p per share. Elsewhere, **British and Commonwealth** were also noteworthy for a rise of 22 at 320p in belated response to moves to expand its merchant banking interests.

Traded option contracts came out a shade lower yesterday with the total at 31,511. Calls amounted to 23,939 and puts were 7,572. **Hanson** contributed 3,789 calls and 535 puts and **Britoil** 2,073 calls and 223 puts. The **FTSE** contract attracted 1,458 calls and 883 puts.

FINANCIAL TIMES STOCK INDICES

	Dec. 17	Dec. 16	Dec. 15	Dec. 14	Dec. 11	Year Ago	1987 High	1987 Low	Since Compilation High	Since Compilation Low
Government Secs	87.86	87.66	87.98	87.94	88.37	82.19	93.32 (8/5)	83.73 (19/10)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	94.84	94.90	96.05	96.01	96.21	89.17	99.12 (15/6)	90.23 (2/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary ♥	1366.6	1348.9	1332.0	1312.4	1310.7	1270.6	1926.2 (16/7)	1232.0 (9/11)	1926.2 (16/7/87)	49.4 (26/6/40)
Gold Mines	319.0	320.4	327.5	336.0	327.3	311.3	497.5 (4/8)	261.6 (6/11)	734.7 (15/2/83)	43.5 (26/10/71)
Ord. Div.Yield	4.60	4.64	4.70	4.77	4.72	4.49				
Earnings Yld. %(full)	11.53	11.59	11.74	11.87	11.68	10.63				
P/E Ratio (net)(*)	10.63	10.57	10.43	10.32	10.48	11.54				
SEAQ Bargains (5pm)	27,907	24,387	21,238	21,883	23,258	30,087				
Equity Turnover (£m)	-	1101.78	1130.65	934.61	1318.86	1245.99				
Equity Bargains	-	25,849	24,017	23,344	25,993	60,168				
Shares Traded (ml)	-	566.3	555.2	350.0	616.4	512.7				

S.E ACTIVITY

Indices	Dec.16	Dec.15
Gilt Edged Bargains	124.3	94.9
Equity Bargains	167.5	155.6
Equity Value	2227.0	2285.3
5-Day average		
Gilt Edged Bargains	108.4	103.3
Equity Bargains	161.2	158.1
Equity Value	2278.1	2254.1

♥ Opening	10 a.m.	11 a.m.	Noon	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1359.0	1362.0	1362.5	1367.3	1372.8	1371.0	1368.7	1363.8

Day's High 1373.1 . Day's low 1359.0

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, S E Activity 1974, * Nil=10.52.

LONDON REPORT AND LATEST SHARE INDEX: TEL. 01-0898 123001

NEW HIGHS AND LOWS FOR 1987

NEW HIGHS (3).

HOTELS Savoy "A" (1) OILS North West Expln. (1) MINES DRX Inc. (1)

NEW LOWS (25).

INT. BANK & O'SEAS GOVT. STLG. ISSUES Utd. Mexican States 16½pc 2008. (1) AMERICANS Chase Manhattan, Conti Illinois Corp., Transamerica. (3) CANADIANS Inland Nat. Gas. (1) BREWERS Clark (Matthew). (1) STORES Knobs & Knockers. (1) ELECTRICALS Cambridge Instrument, Klark-Teknik, Marcol Group, Wayne Kerr. (4) ENGINEERING Chemring Group. (1) FOODS Daniels (S.). (1) INDUSTRIALS Huntleigh Tech., Record Hldgs., YRM. (3) LEISURE Omnicorp Invs. (1) PROPERTY Country New T. (1) TRUSTS Parrish. (1) OILS Atlantic Res., Claremont Pet., Petrofina. (3) MINES Jo'burg Cons., Aquarius Expln. (2) THIRD MARKET Theme Hldgs. (1).

Traditional Options

- First dealings Dec 14
- Last dealings Dec 31
- Last declarations Mar 17
- For Settlement Mar 28

For rate indications see end of London Share Service

The traditional option market passed yet another quiet trading session. Stocks traded in for the call included **Lonrho, Eagle Trust, Dee Corporation, Calor Group, North Kalgurli, Sedgwick Group, Britoil, Morgan Grenfell and MS International.** No put or double options were reported.

FT – ACTUARIES INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

	EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Thu Dec 17 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (27%)	Est. P/E Ratio (Net)	xd adj. 1987 to date	Wed Dec 16 Index No.	Tue Dec 15 Index No.	Mon Dec 14 Index No.	Year ago (approx) Index No.
1	CAPITAL GOODS (214)	700.69	+1.6	10.26	4.12	12.23	20.46	689.56	679.82	669.04	673.90
2	Building Materials (30)	904.29	+2.9	10.90	4.16	11.41	26.06	879.21	866.27	852.83	852.74
3	Contracting, Construction (33)	1319.94	+1.5	10.02	3.79	13.26	34.66	1300.91	1287.73	1255.58	1165.74
4	Electricals (14)	1966.01	+0.9	9.31	4.73	13.97	64.72	1949.00	1911.20	1873.98	1726.59
5	Electronics (33)	1482.31	——	10.77	3.51	12.12	38.48	1481.60	1459.45	1436.81	1447.48
6	Mechanical Engineering (60)	357.22	+1.6	10.45	4.61	12.05	12.17	351.63	343.42	337.16	381.09
8	Metals and Metal Forming (7)	431.40	+1.8	9.80	3.89	12.32	12.48	423.78	416.79	414.35	344.79
9	Motors (14)	255.66	+4.1	11.77	4.55	9.89	7.36	245.67	240.90	235.27	261.37
10	Other Industrial Materials (23)	1214.71	+1.7	8.70	4.28	13.67	37.65	1194.34	1191.99	1183.98	1157.14
21	CONSUMER GROUP (182)	1015.85	+1.8	8.63	3.58	14.76	24.88	997.86	984.29	974.72	931.37
22	Brewers and Distillers (21)	983.07	+3.2	10.98	4.01	11.54	24.09	952.16	939.35	937.56	919.41
25	Food Manufacturing (23)	827.51	+1.6	9.32	3.90	13.77	22.50	814.22	807.32	797.66	728.46
26	Food Retailing (17)	2108.85	+5.4	7.57	2.88	17.62	47.36	2000.77	1990.65	1980.00	1812.89
27	Health and Household Products (10)	1723.75	+0.4	6.81	2.61	17.52	33.67	1716.57	1692.76	1675.23	1619.20
29	Leisure (29)	1104.18	+2.3	7.90	4.23	15.80	29.83	1079.57	1066.13	1055.24	958.64
31	Packaging & Paper (16)	488.78	+1.1	8.62	3.71	15.26	12.53	483.35	469.62	462.58	484.11
32	Publishing & Printing (15)	3287.72	+2.2	6.67	4.45	18.96	98.06	3217.14	3126.33	3046.69	2697.29
34	Stores (35)	824.58	——	9.14	3.67	14.68	20.18	824.84	812.77	808.67	886.05
35	Textiles (16)	591.44	+0.5	11.12	3.98	10.36	17.60	588.25	575.72	556.19	545.17
40	OTHER GROUPS (87)	825.18	+1.3	11.18	4.48	11.12	22.64	814.37	801.79	787.77	799.41
41	Agencies (17)	997.59	+2.0	7.01	2.40	18.22	17.18	978.00	972.00	948.60	0.0
42	Chemicals (21)	1027.58	+0.5	9.96	4.56	12.32	33.55	1022.11	1010.97	982.31	1089.24
43	Conglomerates (13)	1101.21	+1.1	10.80	4.74	10.63	28.57	1089.04	1069.95	1042.47	0.0
45	Shipping and Transport (11)	1710.78	+0.7	9.93	4.82	13.20	57.73	1698.64	1659.05	1624.15	1583.16
47	Telephone Networks (2)	864.31	+2.0	12.46	4.90	10.69	20.21	847.06	835.50	829.69	808.27
48	Miscellaneous (23)	1135.78	+1.4	13.53	4.20	8.79	34.90	1120.29	1096.48	1087.88	1098.79
49	INDUSTRIAL GROUP (483)	890.42	+1.6	9.73	3.96	12.94	23.54	876.17	863.78	852.16	838.99
51	Oil & Gas (17)	1604.91	−1.6	10.35	6.13	11.91	65.84	1630.90	1631.69	1612.85	1464.72
59	500 SHARE INDEX (500)	950.96	+1.2	9.82	4.27	12.79	27.18	940.14	928.81	916.65	891.97
61	FINANCIAL GROUP (121)	616.14	+1.2	–	5.08	–	22.25	608.74	604.22	598.94	602.65
62	Banks (8)	603.49	+0.1	22.10	6.49	5.98	26.94	602.96	603.78	610.37	667.49
65	Insurance (Life) (8)	899.82	+0.1	–	5.11	–	32.56	898.68	898.16	893.05	852.63
66	Insurance (Composite) (7)	515.83	+2.2	–	5.34	–	20.16	504.57	494.62	483.47	445.80
67	Insurance (Brokers) (8)	897.42	+0.9	12.37	6.40	10.35	40.26	889.58	840.37	827.18	1142.45
68	Merchant Banks (11)	323.52	+3.6	–	4.41	–	10.09	312.29	311.72	310.11	341.59
69	Property (49)	950.34	+1.5	5.51	3.23	23.17	22.00	936.40	930.04	904.78	794.63
70	Other Financial (30)	367.56	+2.8	9.89	4.31	12.79	11.96	357.51	354.94	352.20	360.73
71	Investment Trusts (87)	786.50	+1.1	–	3.22	–	17.82	777.81	771.78	762.01	868.70
81	Mining Finance (2)	427.26	−2.0	10.64	3.99	10.59	12.77	435.97	436.91	447.97	325.77
91	Overseas Traders (10)	928.78	+0.4	9.73	5.38	12.06	37.00	925.11	912.85	893.48	747.76
99	ALL-SHARE INDEX (720)	861.05	+1.1	–	4.36	–	25.52	851.61	842.23	832.18	815.04

FT-SE 100 SHARE INDEX ♦

FIXED INTEREST

LONDON TRADED OPTIONS

Option		Calls Jan.	Calls Apr.	Calls Jul.	Puts Jan.	Puts Apr.	Puts Jul.
Allied Lyons (*353)	300	60	70	78	3	9	17
	330	35	50	60	9	20	28
	360	18	35	45	22	32	42
Brit. Airways (*152)	130	25	33	39	3	8	13
	140	17	27	32	7	12	18
	160	7	18	25	17	22	26

Option		Calls Feb.	Calls May	Calls Aug.	Puts Feb.	Puts May	Puts Aug.
LASMO (*250)	240	35	45	57	25	35	43
	260	25	35	47	38	45	53
	280	18	28	40	45	58	67
P. & O. (*504)	460	63	80	97	17	27	40
	500	32	52	70	30	42	58
	550	15	30	–	60	77	–

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for Alpha securities dealt through the SEAQ system yesterday until 5 pm.

Stock	Volume 000's	Stock	Volume 000's	Stock	Volume 000's
ASDA-MFI	6,100	Enterprise Oil	1,700	Prudential	318
Allied-Lyons	5,400	Fisons	2,600	Racal	2,000
Amstrad	1,500	Gen. Accident	384	Rank Org.	688
Argyll Group	6,300	Gen. Elect	946	RMC	576
Assoc. Brit. Foods	1,300	Glaxo	5,800	RHM	374
BAA	2,600	Globe Investment	785	Reckitt & Col.	353

RISES AND FALLS YESTERDAY

LONDON RECENT ISSUES

EQUITIES

FIXED INTEREST STOCKS

RIGHTS OFFERS

WORLD STOCK MARKETS

CANADA

TORONTO
Closing prices December 17

Sales	Stock	High	Low	Close	Chng
33510	Ulster P	191	190	190	−1
13960	U Entprise	$8⅞	8¾	8⅞	+⅛
5930	U Canso	60	60	60	
1064	Un Corp	$35	34¼	34¼	−¼
720	Vestgron	230	200	200	−50
12900	Vulcan Ind	190	190	190	
1300	Wajax A	$10¾	10½	10½	+½
57812	Wcoast T	$16¾	16⅝	16⅝	
10554	Westmin	$8⅝	8½	8⅝	
18850	Weston	$31¼	30¾	31¼	+½
16804	Woodwd A	$5¼	5⅛	5⅛	−⅛

F−No voting rights or restricted voting rights.

MONTREAL
Closing prices December 17

Sales	Stock	High	Low	Close	Chng
82248	Bank Mont	$27	26⅝	25⅞	
4700	BombrdrA	$07¾	07⅝	07⅝	
89465	BombrdrB	$07⅝	07½	07⅝	
10385	CB Pak	$15¼	14½	14½	−⅝
16680	Cascades	$08¼	08⅛	08⅛	−⅛
6400	ConBath	$18⅝	17¾	18	+⅝
3106	DomTxtA	$17⅝	17¼	17½	+¼
2300	MntTrst	$12¼	12¼	12¼	+¼
91317	NatBk Cda	$11⅛	11	11⅛	
41560	Noverco	$11¼	11	11¼	+¼
114040	Power Corp	$14¼	14	14⅛	+⅛
116501	Provigo	$07⅝	07¾	07½	+⅛
2010	RollandA	$10¼	10¼	10¼	+¼
32154	Royal Bank	$28½	28¼	28⅜	
4825	SteinbrgA	$27½	27⅜	27½	−¼
12615	Videotron	$08⅜	08	08	−½

Total Sales 5,165,824 shares

OVER-THE-COUNTER *Nasdaq national market, closing prices*

Stock	Sales (Hnds)	High	Low	Last	Chng
RegIBc .08e 7	152	13⅛	12⅞	12⅞	
Replgn	298	9½	8¾	8¾	−¼
RepAm .24 9	577	12¾	12⅝	12⅝	
ReutrH .98e	3784	50⅞	49⅝	50¼	+1⅜
Rexon 10	959	5½	5¼	5⅛	+⅞
RayRy .76 8	2833	15¼	14¼	15¼	+¾
RhonPl	102	28⅝	28½	28½	+⅜
Riblim	564	4¾	4¼	4⅜	−⅜
RchmHl.05e	678	14¾	14¼	14½	
RiggsNt1.10 21	186	18¾	18	18¾	+¼
RoadSv1.10 22	1103	33⅛	32¼	32¼	−¼
SoftwA 12	253	9⅜	9⅛	9¼	
SftwPb 11	118	7⅞	7½	7⅝	−⅛
SonocPs .52 15	406	22¼	21¾	22¼	+¼
Sonora	86	6¾	6½	6⅝	−⅜
SCarNt .56 9	120	19⅜	19	19	
Soumst 72	108	12¾	12¼	12¼	−½
SohldSv	995	14⅛	13⅜	13⅝	−⅜
Soutrst .80 7	328	17¾	17⅜	17½	+¼
Sovran 1.44 11	1026	31⅜	30⅞	31⅛	+¼
Spartcs 10	60	8	7⅝	8	+½
Standys .92 12	76	24	22½	24	+½

U U

Stock	Sales (Hnds)	High	Low	Last	Chng
USTs .52 10	30	19½	19½	19½	
UTL 10	132	7¼	6¾	6⅞	
Ungmn 22	4386	7⅞	7½	7⅝	+⅛
Unifi 10	483	16½	16	16	−⅜
UnPlntr .60 37	368	22½	22	22	
UnSplC 17	2	20½	20½	20½	
UACm .04 171	319	20½	20	20½	
UBCol .54j 24	371	15	14⅝	14¾	−¼
UnCosF .55 7	49	16¾	16¼	16¾	
UHltCr	687	4⅛	3¾	3¾	−⅛
UtdSvrs .72 5	382	11½	11	11¼	−¼

Stock	Sales (Hnds)	High	Low	Last	Chng
USBcp .80 7	1358	21	20⅝	20⅝	+⅛
US HltC .16 147	3835	6	5⅜	5⅞	+½
USTrst 1 11	483	35½	33¾	35	+1
Wyman .80	88	13¼	13	13¼	−½
Wyse 12	5283	22¼	21	21¼	+⅛

X Y Z

Stock	Sales (Hnds)	High	Low	Last	Chng
XOMA	956	11½	10¼	10¼	−1
Xicor 118	2424	8½	8⅛	8¼	
Xidex	12200	7⅜	6⅝	6¾	−⅜
Xylogic 10	197	10¾	9¾	10	−¼
Xyvan 21	809	8	7⅛	8	+¾
YlowFs .62 20	956	28¼	27½	27⅞	+⅜
ZionUt 1.44	28	23	22¾	22¾	−¾
Zondvn	336	9¾	9½	9½	
Zycad	301	3⅝	3⅜	3½	

CHIEF LONDON PRICE CHANGES YESTERDAY

(Prices in pence unless otherwise indicated)

RISES

Treas 2½ IL 2006	$107½	+	⅝
AIM Group	195	+	30
Allied-Lyons	355	+	17
Brit. & Comm.	320	+	22
Britoil	422	+	16
CH Industrials	132	+	12
Christies Intl.	373	+	14
Cookson	506	+	11
Dee Corp	230	+	54
Grand Met.	422	+	12
Hammerson A	490	+	19
Ibstock Johnsen	154	+	12
Kleinwort Benson	314	+	26
M & G Group	233	+	47
Magnet	213	+	34
Morgan Grenfell	264	+	13
Quest Group	84	+	7
RHP	192	+	12
RMC	414	+	17
Redland	418	+	17
Reed Intl.	409	+	15
Royal Insurance	401	+	12
Singer & Friedlander	63	+	9
Steetley	318	+	18
Taylor Woodrow	348	+	10

FALLS

Barker & Dobson	153	−	12
Dixons	195	−	7
Enterprise Oil	235	−	14
LASMO	251	−	18
Woolworth	244	−	9

TOKYO – Most Active Stocks
Thursday December 17 1987

	Stocks Traded	Closing Prices	Change on day
Nisshin Steel	61.49m	637	+38
Ishikawajima-Harima Heavy Inds	54.50	661	+26
Japan Synthetic Rubber	24.23m	920	+29
Tokyo Construction Rubber	24.17m	925	+35
Nippon Steel	17.88m	404	-4
Yodogawa Steel Works	14.29	1,270	-30
Tokyo Steel Mfg.	13.73m	3,360	+10
Nachi-Fujikoshi	12.55	568	+20
Sumitomo Construction	12.32	685	+16
Nippon Metal	10.41m	726	+11

Indices

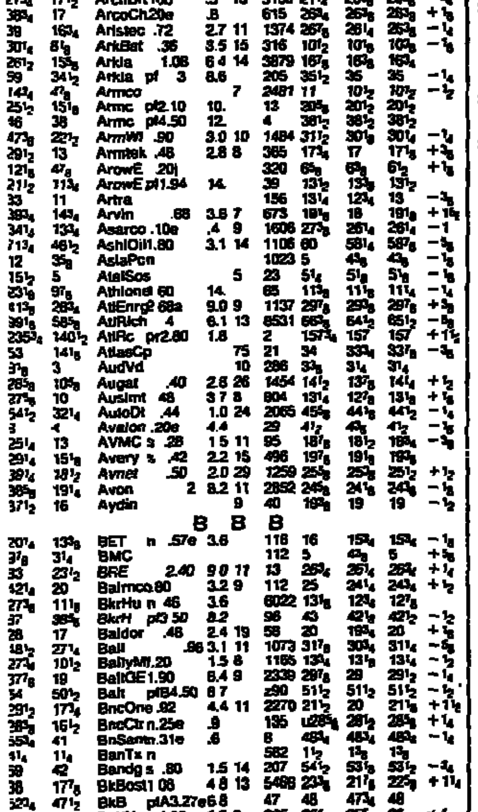
NEW YORK
DOW JONES

CANADA

NEW YORK ACTIVE STOCKS

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]



Continued on Page 39

NYSE COMPOSITE CLOSING PRICES

Continued from Page 38

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
61¼	45¾	PacLtg	2.48	7.2	11	428	49½	48⅝	48⅝	−1⅛
17⅞	7½	PacRes	15e	1.7	43	102	9⅛	9	9	−⅛
27	19	PacRs pf	2	9.4		1	21¼	21¼	21¼	+⅛
20¼	9¾	PacSci	.40	3.9	16	147	10⅝	10⅜	10⅜	−¼
33¾	22½	PacTele	1.64	6.0	11	5816	28¼	27½	27½	−1
39	26¾	Pacificp	2.52	8.1	8	937	32	31	31	−1⅛
26⅞	6¾	PacoPh			34	2017	12	8¾	12	+3⅛
39⅛	13⅛	PainWb	.52	3.5	6	1224	15⅛	15	15	−¼
28½	13½	PainW pf	1.37	9.9		85	14⅛	13⅞	13⅞	−⅛
6⅞	3	PanAm				4996	3¼	3⅛	3¼	+⅛
2	13-16	PanA wt				405	15-16	⅞	⅞	−⅛
34¾	19⅞	PanEC n	2	9.8		4636	21	20¼	20½	−⅝
21⅜	6½	PanHl			8	858	8¾	8	8½	+½
27¾	10½	Pansphs	.16	1.0	16	2168	16⅝	15	15¼	−⅝
27¼	9¾	ParPh s			18	247	17¾	17⅝	17⅝	−¼
15½	4¾	ParTch			6	20	5⅞	5⅝	5¾	
8¾	3½	Pardyn				459	4½	4⅛	4⅛	+⅛
24½	12	ParkEl	.16	1.0	13	15	15½	15¼	15½	+¼
8⅞	2½	ParkDrl	01j	.3		721	3	2¾	2⅞	
49	24½	ParkHn	.80	2.2	19	2485	37⅜	35⅝	37⅛	+⅜
5⅛	2⅞	PatPtr			56	116	3⅛	2⅞	2⅞	−⅛
10⅝	3⅝	Patten	.04i	.9	6	502	4⅞	4⅝	4⅝	−⅛
21½	10⅞	PayNP	.30j		16	15	13	13	13	−¼
26⅞	9⅝	PayCsh	.16	1.5	9	1507	11⅛	10½	10½	−1
60½	37	PenCen	.05	.1	14	2455	44⅞	44⅛	44½	−¼
66	35¼	Penneys	1.48	3.3	11	4282	46	45	45	−1
41⅜	28⅝	PaPL	2.68	8.1	10	774	33⅜	32⅞	33⅛	−⅛
58	43	PaPL pf	4.40	9.7		z100	45½	44½	45½	+1½
54	44	PaPL pf	4.50	10.		z580	45½	44½	45	+½
104	76	PaPL pf	8.60	10.		z150	84	83	84	−⅞
101	78	PaPL pr	8.40	10.		z20	83	83	83	−1
[illegible]										
24⅜	12¼	Rollins	.50	3.4	16	214	15¼	14¾	14¾	−⅝
29⅞	12½	Roper	.60	4.1	7	887	15½	14¼	14⅝	−½
58¾	28¾	Rorer	1.16	3.2	20	1031	38⅝	35⅞	36½	+⅞
19⅜	3¼	Rothch				745	4⅜	4¼	4⅜	−⅛
11¼	3⅝	Rowan				10898	4¾	4¼	4¼	−½
141	91⅝	RoylD	6.32e	6.0	9	2861	105⅜	104⅝	105⅛	−⅜
11⅞	5	Roylnt			35	84	6⅞	6⅝	6⅝	−⅜
11⅜	5¾	Royce				252	7⅛	6⅞	7	
35	19	Rubmd	.36	1.5	22	885	24¼	23⅝	24¼	
45¾	17½	RussBr	.40	2.0	9	717	20¼	19⅝	20¼	+¾
24⅛	11	RusTg s	.60	4.9	7	124	12½	12⅛	12¼	+⅛
20½	10⅝	Russell	.20	1.7	10	1878	12¼	11½	11½	−⅝
43	20	Ryder	.52	2.1	11	8082	25⅛	23½	24½	+½
32¼	17⅜	Rykoff	.68	3.3	13	301	21⅛	20⅝	20⅝	−⅛
33	11	Ryland	.40	2.8	5	2830	14¼	12¾	14⅛	+1⅛
24⅛	7½	Rymer				61	8⅞	8¾	8⅞	+⅛
13⅞	8⅜	Rymer pf	1.17	14.		116	8¼	8⅛	8⅛	+⅛
		S S S								
13⅜	7½	SL Ind	.16b	1.8	11	140	9¾	9½	9¾	+½
47¾	20⅞	SPSTec	1	4.2	9	139	24⅛	24	24	−¼
26½	13	SSMC				107	16⅝	15½	16⅜	+⅝
34⅞	18½	Saatchi	.87e	3.6	11	122	24	23⅞	23⅞	
19⅝	9⅜	Sabine	.04	.3		1235	11⅞	10½	11½	+¾
14⅝	10	SabnR	1.44e	14.	8	129	10¼	10⅛	10⅛	
19⅞	9	SfgdSc			5	528	14	13¼	14	+1
39½	21⅛	SafKl s	.24	.8	28	422	29⅛	28¾	29⅛	+⅛
9	5¾	SahCasn	.19e	2.6		118	7¼	7	7¼	
25¼	17⅝	StJoLPs	1.32	7.2	8	44	18⅜	18⅛	18⅜	+⅛
[illegible]										
34	20¾	TootRl	.28	.8	16	x19	28⅜	27½	27½	−⅞
38¾	21¾	Trchmk	1	4.1	8	2318	24⅜	24	24½	+½
23⅜	11⅛	Toro s	.40	3.0	8	1343	13⅞	13	13½	+⅝
3¼	1⅛	Tosco				716	1⅝	1½	1½	
35⅞	16	Tosco pf	2.38	11.		389	22½	21⅞	22¼	+⅜
42¾	22	ToyRU			23	4208	30	28⅞	29½	+¾
33	16¾	Tracor	.40b	1.3	21	40	32	31¾	32	
15⅛	7⅝	Tramel	1.40	18.	48	345	8⅛	d	7½	7¾
35	14	TWA			14	632	21⅝	20⅝	20⅝	−⅝
17¾	14	TWA pf	2.25	14.		57	15¾	15⅝	15⅝	−⅛
51½	22¾	Transml	.84	6.7	5	2084	28⅜	27½	27½	−½
26⅞	21	TranInc	2.28a	9.2		31	25	24⅝	24⅝	
16½	10½	TrnCdag	1.12		13	672	12½	12⅛	12¼	+⅛
15⅜	4⅝	Trnscap			4	14	6⅞	6¾	6¾	
50	18	Transcd	.36	6.0		1137	22⅞	22⅜	22½	−½
57½	38	Trnsc pf	4.75	12.		54	38½	d37¾	38¼	+¼
18¼	4⅞	TranEx	.88	18.		1430	5¼	4⅞	4⅞	−⅛
8¾	2¼	Transcn				280	2⅞	2½	2¾	+¼
62⅜	30¾	Travler	2.28	6.8	7	6409	34⅝	33½	33⅝	−⅞
57	45⅞	Trav pf	4.16	8.9		625	47	46½	47	+⅛
34	20⅝	TriCon	4.62e	21.		247	22	21¾	21¾	−¼
34⅞	28	TriCn pf	2.50	8.8		5	28¾	28½	28½	+⅛
44	22½	Triatn s	.12	.5	10	1622	25½	24	24½	+½
40¾	28⅜	Tribun s	.60	1.5	25	1287	39⅞	38½	38¾	−¾
6⅜	1¾	Tricntr				151	6	5⅞	6	−⅛
34½	14¼	Trinty	.50	2.0	111	581	25½	25⅛	25½	
44¼	20¼	Trinova	.56	1.8	15	2518	32¾	31	32	+⅞
19⅜	6¾	TritnG s			21	173	11½	11⅛	11⅛	−⅜
24¼	11⅞	TritEng	.10b	.8	9	201	12¾	12¼	12⅜	−⅜
[illegible]										
28⅞	18⅞	WisPS	s1.54	7.7	10	201	20⅜	20⅛	20⅛	−¼
47⅞	26⅝	Witco	1.28	4.1	11	953	31	29⅞	30⅞	+⅞
18½	8¾	WolvTc	.28	1.8	8	86	11	10¼	11	+⅝
14	7½	WolvrW			51	54	8⅞	8¾	8¾	−⅛
59⅝	29½	Wlwth	s1.32	4.0	9	2829	33⅝	32⅞	33¼	+⅜
9⅞	4	WrldCp				7	6⅜	6¼	6¼	
19½	10⅜	WrldVl				87	11⅝	11½	11⅝	−⅛
70	39	Wrigly	1.04a	1.5	21	356	69½	67¼	67¼	−2¼
3⅞	1	Wurlitzr				62	1	1	1	
17½	7	WyleL s	.28	2.2	26	697	12½	12	12½	+⅜
30⅝	14½	Wynns	.60	3.2	15	709	19½	17¼	18¾	+2¼
		X Y Z								
85	50	Xerox	3	5.3	12	2226	58¾	55¼	56½	−2⅜
58¼	52½	Xerox pf	5.45	10.		152	53	52¾	53	
31½	19⅝	XTRA	.64	3.0	14	87	21⅝	21⅜	21½	−¼
28¼	19½	XTRA pf	1.94	9.0		59	21½	21	21½	+¾
33⅞	16⅝	Yorkln			9	49	23½	22¾	22¾	−¾
7¼	2⅜	Zapata				27132	3¾	d. 2⅛	2⅝	−⅜
37	13½	Zayre	.40	2.6	6	4538	16⅜	15⅜	15½	−⅝
16⅞	9¼	Zemex	.40	4.2	8	1	9½	9½	9½	
33⅝	10	ZenithE				1777	15⅜	14⅞	15	−⅛
13½	2⅝	ZenLab				1983	3	2¾	2⅞	−⅛
26½	13½	ZenNtl	.80	5.3	7	315	15¼	14⅞	15⅛	+⅞
20⅝	11⅝	Zero	.36	2.4	15	247	15½	15	15	−⅜
30¾	15	Zurnln s	.68	3.8	12	282	18¼	17⅞	18⅛	−⅛
10⅝	7⅝	Zweig	.92e	11.		407	8¾	8½	8⅝	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls - sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

[illegible]

OVER-THE-COUNTER Nasdaq national market, closing prices

[illegible]

Continued on Page 37

AMERICA

Dow slumps as market rally falters

Wall Street

THE EQUITY market's 200 point rally in the last two weeks faltered yesterday as predictable profit-taking gave way to more substantial selling as the dollar hit new lows, *writes Janet Bush in New York*.

The Dow Jones Industrial Average closed 50.07 points down at 1,924.40, slumping in afternoon trading to end at session lows

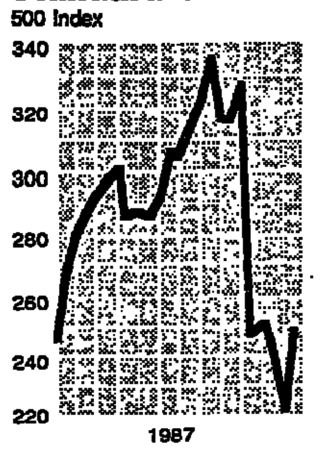
The market had looked indecisive during the morning session, quite natural after the substantial rally since early this month. While most analysts felt the index could rise further before the end of the year, they saw a period of consolidation first.

However, profit-taking on blue chip issues, which had performed strongly earlier this week, coupled with weakness in the oil sector as oil prices went into freefall, accelerated as the dollar slumped. In late New York trading the dollar was quoted at a post-war low of Y125.85 and DM1.6140.

The dollar has been quietly drifting lower most of this week, but the slide had been masked to some extent as focus was trained on the collapse in crude oil prices and the accompanying dampening effect on US and world inflation.

However, attention yesterday returned to the foreign exchange market and overrode the positive impact of falling commodity prices. The US Treasury bond market gave up an opening gain of as much as 1¼ point to close around ⅛ point below Wednesday's closing levels.

Standard & Poors
500 Index



The positive start was attributed to sharp declines in key commodities. In hectic trading on the New York Mercantile Exchange, crude for January delivery was quoted more than $1 a barrel below Wednesday's late levels at $14.90 per barrel. Meanwhile, gold plunged around $10 an ounce between the morning fixing in London and the afternoon fix.

A contributory factor to the dollar's fall yesterday was a remark by Mr Gerhard Stoltenberg, West Germany's Finance Minister, that the lower dollar may be adversely affecting export industries but was also beneficial for price stability.

The apparent message that Germany could live with an appreciating Deutsche Mark was extremely negative for the dollar and undermined both equities and bonds yesterday.

The Treasury's 30-year 8.875 per cent benchmark issue closed ⅛ point lower to yield 9.143 per cent.

It is somewhat difficult to judge the fundamental strength of this week's rally in equities. Earlier this week, futures-related activity appeared to have been substantial prior to today's so-called "triple witching hour" when stock index futures and options and individual options expire. This high level of technical activity tends to cloud judgement on buying or selling interest in the cash market.

According to some analysts, the expiration of options and futures today may have little effect on the market as many futures contracts will already have been rolled over into the new March contract which had been trading at a substantial premium to the expiring December contract.

Nevertheless, many traders and investors yesterday seemed to have opted for a defensive stance prior to expiration because of uncertainty about how much impact it could have on the cash market.

Blue chips showed particular weakness, having led market advancers earlier this week. International Business Machines dropped $3⅜ to $115½, Coca-Cola was down $1¼ at $38¾, General Electric lost $1⅝ to $45 and Philip Morris dropped $3⅜ to $89⅜.

Falling oil prices weakened the oils sector. Exxon was down $1¼ at $38⅞, Chevron lost $1 to $37½ and Schlumberger, the oilfield services company, slipped $¼ to $28¾.

Gold producers suffered during the morning session but improved in the afternoon session as gold lifted off its lows. Newmont Mining was down $⅞ to $35⅝ and Battle Mountain closed $⅛ higher at $19⅛.

Digital Equipment fell prey to falls in the broader market. The company's share price had risen $2¼ to $137 in morning trading after news it plans to unveil a new computer by June which would be almost twice as fast as its most powerful current model. However, the share price then lost ground to close $1⅜ lower at $133⅝.

Canada

TORONTO STOCKS closed broadly lower as major share groups trailed a decline on Wall Street amid investor nervousness about the falling US dollar.

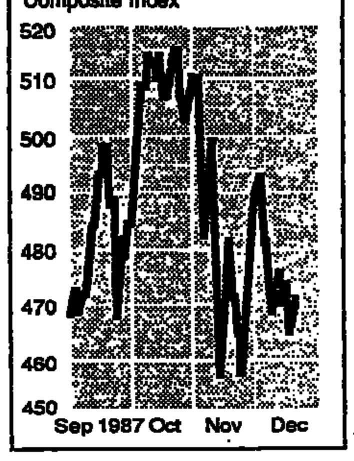
The composite index fell 32.50 to 3,113.20 as declines led advances by 543 to 358 on turnover of 25.2m shares.

"These are very unsettled markets," said Mr Ross Wilson of Midland Doherty. "The US dollar is going to continue to fall and that's going to cause a lot of nervousness."

Golds were generally lower. Placer Dome slipped C$⅛ to C$19⅞ and Giant Yellowknife dropped C$½ to C$21½. Lac Minerals, which was granted the right to appeal against a court decision awarding a rich Ontario gold mine to International Corona, rose C$⅞ to C$14.

ASIA

South Korea
Composite Index



Seoul up sharply in response to election

THE SEOUL stock market greeted the presidential election victory of Mr Roh Tae Woo, the ruling party candidate, with a record one-day rise in share prices, *writes Our Market Staff*.

The composite stock price index surged 19.27, or 4 per cent, to close at 491.44, as the market put behind it a nervous and mixed performance earlier this week.

Trade opened with a flood of buying orders for financial issues. The firm trend continued, but against a general reluctance to sell stocks turnover hit an all-time low of 1.4m shares, compared with Tuesday's volume of 12.21m. The market was closed on Wednesday for the election.

Brokers said the market took particular reassurance from the margin of Mr Roh's victory, taking the view that so large a majority could not have been rigged, whatever individual instances of electoral malpractice there may have been. Most expected the market to remain steadily firm for some weeks.

Insurance, financial and electronics stocks led yesterday's advance. Among the brightest blue chips, Daishin Securities added Won 1,300 to Won 34,000, while Dongsuh was Won 1,300 higher at Won 38,440.

Seoul is closed to direct foreign investment, but internationally tradeable funds on the market also rose modestly yesterday. The Korea Fund was $1 higher at $50¼ and the Korea European Fund also up $1 at $20.

Late institutional buying supports modest advance

Tokyo

LATE but enthusiastic interest in leading high-technology and biotechnology issues took share prices in Tokyo higher for the first time in five trading days, *writes Shigeo Nishiwaki of Jiji Press*.

The Nikkei average gained 80.41 to 22,899.33. Despite the last-minute buying spree, trading remained lacklustre with turnover at only 523.33m shares, compared with Wednesday's 685.38m. Advancing stocks outnumbered declines by 489 to 392, with 148 issues unchanged.

The market got off to a firm start, helped by Wall Street's continued advance and lower crude oil prices. After the initial interest, however, buying tapered off, prices eased and activity was quiet.

Towards the close, however, securities houses, notably Nomura Securities, entered the market strongly to seek high-technology and biotechnology stocks. This, in turn, lifted the market modestly before the closing bell.

Leading high-techs climbed after the institutions stepped on to the floor. Sony surged Y130 to Y4,980, Matsushita Electric Industrial advanced Y90 to Y2,140, NEC added Y30 to Y1,920 and Fuji Photo Film rose Y70 to Y3,930.

Biotechnology stocks also benefited in the late buying spree. Tanabe Seiyaku soared Y160 to Y2,310, Takeda Chemical climbed Y100 to Y3,000 and Sankyo was up Y100 to Y1,680.

Spurred by gains in these issues, chemicals also attracted strong buying interest, with Sumitomo Chemical adding Y31 to Y850 and Mitsui Petrochemical Industries up Y40 to Y1,090.

Large-capitalisation stocks returned to favour. Ishikawajima-Harima Heavy Industries topped the active list with 35.66m shares traded and advanced Y19 to Y680. Nippon Steel, the second busiest issue with 17.26m shares traded, finished Y10 higher at Y414.

Small and medium-capital stocks, which had performed strongly during recent sessions, declined over a broad front.

Tokyu Construction closed Y5 lower at Y920 after rising Y23 at one stage during the day. JDC and Nachi-Fujikoshi shed Y10 and Y16 to Y760 and Y552, respectively.

ECONOMIC ministers of the Association of South East Asian Nations have agreed in principle to seek the cross listing of shares on each other's stock exchanges, Reuter reports from Manila.

The Philippines' Trade and Industry Secretary, Mr Jose Concepcion, said there remained technical problems to sort out but he expected cross listing to begin next year. Asean comprises Singapore, Malaysia, Indonesia, Thailand, the Philippines and Brunei.

NTT ended Y10,000 lower at Y2.27m, while Jal lost Y400 to Y14,000.

Bond prices eased after a firm start in inter-dealer trading. The early rise was supported by lower crude oil prices and falling long and short-term US interest rates.

In early trading, the yield on the 5.0 per cent Government bond, maturing in December 1997, fell to 4.615 per cent as a result of active buying by dealers, including the dealer section of one major brokerage house.

However, dealers sold the benchmark issue in late trading, pushing up the yield to 4.690 per cent.

On the Osaka Securities Exchange (OSE), profit-taking pressure drove share prices lower for the fifth consecutive trading day.

The 250-issue OSE stock average closed 17.96 lower at 23,207.35, on an estimated volume of 103.98m shares, up 900,000 from the previous day.

Shikoku Electric Power posted the maximum allowable daily gain of Y106 to Y1,030 on speculative interest.

Australia

STRENGTH among mining and industrial shares on the back of firmer base metal prices spread through the Sydney market to leave prices higher. The All Ordinaries index added 7.2 to 1,250.5.

News Corp starred among industrials with a 50 cent gain to A$9.90, while Lend Lease added 40 cents to A$10.70 and BTR Nylex 10 cents to A$6. James Hardie rose 10 cents to A$2.70 on news of 11 per cent higher interim profits.

Metal price gains put 24 cents on CRA to A$5.84 and 25 cents on Comalco to A$2.60. North Broken Hill rose 5 cents to A$2.85. Golds, though, suffered from lost momentum in the bullion price, with Gold Mines of Kalgoorlie 80 cents off at A$4.

Singapore

FADING from a buoyant opening as investors took profits on the past sessions' advances, Singapore closed marginally higher but off its highs. The Straits Times industrial index ended 5.37 up at 768.63.

Of the featured blue chips, DBS and ICS both made up 20 cents to S$8.55 and S$6.60 in turn, while Inchcape rose 11 cents to S$3.06.

Fraser and Neave, though, fell 5 cents to S$7.20 despite announcing an 18.5 per cent rise in operating profits.

Elsewhere, Carlsberg drifted 8 cents lower to S$4.46 after Wednesday's surge, while Metro was 6 cents easier at S$4.42. City Developments added 1 cent to S$1.90 in busy trade, while Haw Par was 5 cents off at S$2.24

Hong Kong

SLACK foreign interest and a dearth of market signals left Hong Kong share prices mixed in dull trade. The Hang Seng index closed 3.48 off at 2,142.23 having recovered an earlier 19 point fall.

Cathay Pacific made a 20 cent advance against the market to HK$5.45 and utilities found support, with Hongkong Electric 5 cents up at HK$7.20 and China Light 10 cents firmer at HK$16.20.

Banks were mixed, with Hongkong Bank up 5 cents at HK$6.85, but Bank of East Asia off 10 cents at HK$16.90 after Wednesday's strong gain. Hang Seng Bank also gave up recent gains with a 20 cent fall to HK$25.40.

In commercial and industrial issues, Wharf Holdings fell 5 cents to HK$2.20 and Jardine Matheson slumped 40 cents to HK$9.40. Hutchison Whampoa fell 10 cents to HK$6.70.

EUROPE

Momentum slackens as dollar falls

THE MILD enthusiasm which lifted the market at the beginning of the week petered out, leaving major bourses quietly depressed. Many operators decided to close their 1987 books on a comparatively firm note and hope for a better time next year. The renewed weakness of the dollar also reined in any efforts to sustain the upward momentum.

FRANKFURT eased as many operators wound up for the year, taking light profits after Wednesday's advance. Concern about the dollar continued to weigh on the market and hit export-led issues, notably cars.

Many investors appeared to have taken the Commerzbank's regular year-end report to heart. The bank forecast a 3 per cent rise in German company profits during 1988 but that warned that investors should excercise caution because of continuing currency instability.

The midsession Commerzbank index dipped 8.6 to 1,348.1 and the FAZ index closed 2.78 lower at 438.57

Among cars BMW, which had led the market in previous days, tumbled DM17.50 to DM459 after profit-takers moved in, while Daimler-Benz skidded DM15.50 to DM613 Porsche was adversely affected by news that the company's president will resign because of slumping US sales and dropped DM13 to DM430.

Volkswagen eased DM2 to DM235 after the group announced a 1 per cent increase in sales and flat net earnings for 1987

The weak dollar, fixed just above its record low, pulled electricals lower. Siemens eased DM6.30 to DM376 and AEG slipped DM3.10 to DM215.60.

Banks posted small losses. Deutsche eased DM2.50 to DM414.50, Dresdner slipped DM2 to DM237.50 and Commerzbank lost DM4.50 to DM226.50.

AMSTERDAM pulled itself off the day's lows but remained depressed by disappointing company news. The CBS Tendency index closed a net 0.8 lower at 65.6.

Blue chips closed mainly lower, with the exception of Unilever which traded 20 cents firmer at Fl 105.00. Royal Dutch ended 30 cents lower at Fl 192 and Akzo dropped 40 cents to Fl 91.60.

Transport group Nedlloyd, which resumed trading after a two-day suspension, closed Fl 15 lower at Fl 126.50 following news that the company planned to almost double nominal share capital and its forecast of a sharp one-off loss for 1987.

Biotechnology company Gist Brocades, which forecast lower net earnings for 1987, was suspended at Fl 24.60, up 10 cents from Wednesday's close.

PARIS was depressed in busy trade both by pessimism over the outlook for the dollar and profit-taking on the week's gains. The CAC index eased 1.5 to 286.3.

Oils fared poorly as crude prices continued to sink. Elf Aquitaine was FFr11 down at FFr227 and Cie de Raffinage et Distribution FFr5.20 off at FFr74.60. Exploration group Geophysique drifted FFr7 lower to FFr296, a dip of 7.2 per cent.

Peugeot provided some cheer among blue chips, rising FFr4 to FFr939, while Spie Batignolles aded FFr12 to FFr342 and Telemecanique Eletrique FFr109 to FFr2,974.

Cie du Midi, in contrast, lost FFr25 to FFr1,065 and Thomson-CSF FFr24 to FFr741. Paribas was FFr4 cheaper at FFr321.

ZURICH firmed as modest gains in blue chips and insurers offset declines in other sectors. The Credit Suisse index inched up 2.8 to 421.3 in moderate activity.

Among insurers, Swiss Reinsurance added SFr150 to SFr12,600 and Winterthur gained SFr25 to SFr4,925.

Other blue chips to post strong gains included Sandoz, which added SFr200 to SFr12,500 and Adia, which picked up SFr125 to SFr5,950. Nestle rose SFr50 to SFr8,125 in foods and Jacobs-Suchard added SFr50 to SFr8,550.

In a mixed banking sector, Credit Suisse shed SFr30 to SFr2,375 and Union Bank gave up SFr50 to SFr3,050. Swiss Volksbank rose SFr10 to SFr1,720.

BRUSSELS continued mixed as uncertainty persisted over the formation of a new government after Sunday's general election. However, the start of the fortnightly trading period prompted an upturn in volume. The Brussels stock index edged up 14.69 to 3,525.86, lifted by modest gains in holdings.

In holdings, Reserve slipped BFr10 to BFr2,110, while Sofina improved BFr200 to BFr8,400.

Utilities and chemicals were little changed overall, although UCB lost BFr200 to BFr6,640 after paying a dividend.

STOCKHOLM climbed as the market took heart from lower interest rates and falling oil prices. However, trading remained thin.

Blue chips posted the largest gains with Volvo up SKr8 at SKr279, Asea adding SKr6 to SKr264 and Skandia rising SKr12 to SKr148.

During the morning, investment group Argentus was suspended amid reports of an expected, but still unspecified, deal.

OSLO saw a respite in the fall of oil prices which helped lift share prices modestly higher. Uncertainty over Norway's economic future curtailed half-hearted efforts to rally and left the all-share index up only 1.41 at 243.17 in low volume.

Oils and industrials edged higher, offsetting a modest decline in banks.

MILAN was taken higher by speculative interest in a few, selected shares. Most sectors built on their gains of the previous day with industrials, blue chips and insurers higher.

Expectations that domestic mutual funds would initiate a buying spree in the near future also continued to support prices.

MADRID advanced across a broad front as all sectors, with the exception of utilities, posted moderate gains. The general index added 6.35 to 225.83.

HELSINKI inched marginally lower as an almost empty trading floor left no room for movement. A small number of declines took the Unitas index 0.2 lower to 546.5.

London

TAKING a lead from Wall Street's overnight strength and bolstered by takeover activity, London equities took another step higher.

The FT-SE 100 index ended the day 16.4 higher at 1,706.2 – its best close since November 2 and a fifth successive advance.

Government bonds also followed a strong US cue and hopes that lower oil prices would subdue inflation. Long maturities ended with gains of ⅜, with shorter bonds slightly firmer.

SOUTH AFRICA

WEATHERING a slight fall in the bullion price and some selling from London, Johannesburg gold shares ended mixed with a higher bias in quiet trade.

Bellwether Vaal Reefs posted a R3.25 advance to R352 and Harties climbed 50 cents to R31. Freegold and Dreifontein both managed 75 cent gains to R42.50 and R73.25.

Kloof, however, held at R42.50 and Buffels lost R2.25 to R64, while Randfontein was R7 easier at R290. Beatrix slipped 75 cents to R17.25.

Mining financials softened, Anglo American by R1.25 to R58.50 and Gencor by 50 cents to R49. Diamond issue De Beers, though, picked up 85 cents to R30.25 in firm minings, with Rustenberg Platinum up 50 cents at R30.50.

Most industrials were lower where changed. Sector leader Barlow Rand stayed at R21, with South African Breweries also unchanged at R16.50. Sasol, though, dipped 15 cents to R7.60.

FT – ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	THURSDAY DECEMBER 17 1987					WEDNESDAY DECEMBER 16 1987			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1987 High	1987 Low	Year ago (approx)
Australia (88)	97.41	+1.2	78.68	90.40	4.55	96.23	77.88	89.67	180.81	85.36	99.54
Austria (16)	96.98	+1.1	78.34	81.75	2.55	95.93	77.63	81.41	102.87	85.53	94.42
Belgium (48)	96.14	−0.4	77.66	81.09	5.83	96.54	78.13	81.54	134.89	94.63	94.84
Canada (127)	108.13	−0.7	87.34	102.22	3.04	108.87	88.10	103.15	141.78	98.15	99.61
Denmark (38)	114.64	+0.6	92.60	97.45	3.02	113.95	92.22	97.45	124.83	98.18	95.86
France (121)	86.01	−0.4	69.47	74.07	3.56	86.31	69.85	74.84	121.82	77.39	100.57
West Germany (93)	77.63	−0.3	62.71	65.46	2.89	77.85	63.00	65.99	104.93	68.91	95.12
Hong Kong (46)	83.07	+0.3	67.09	82.82	5.97	82.84	67.04	82.65	158.68	73.92	94.24
Ireland (14)	103.55	+0.9	83.64	89.10	5.07	102.59	83.02	88.57	160.22	93.50	96.03
Italy (94)	79.38	+2.0	64.11	70.72	2.69	77.83	62.98	69.63	112.11	72.04	93.22
Japan (457)	145.72	+1.4	117.70	116.25	0.59	143.77	116.35	115.69	161.28	100.00	96.73
Malaysia (36)	104.13	+0.4	84.11	99.76	3.62	103.73	83.95	99.38	193.64	93.76	99.64
Mexico (14)	108.67	+0.7	87.78	271.49	1.10	107.97	87.37	269.74	422.59	99.72	98.21
Netherland (37)	96.42	+0.3	77.88	80.33	5.57	96.16	77.82	80.58	131.41	87.70	96.65
New Zealand (20)	75.32	+0.4	60.84	61.88	5.44	75.04	60.73	61.75	138.99	75.04	97.91
Norway (24)	97.67	+1.4	78.89	84.35	3.23	96.30	77.93	83.36	185.01	95.51	97.89
Singapore (26)	90.20	+0.8	72.86	83.01	2.91	89.50	72.43	82.43	174.28	81.21	100.95
South Africa (61)	139.37	+0.3	112.57	93.04	4.61	139.00	112.49	92.79	198.09	100.00	103.92
Spain (43)	130.19	+3.5	105.16	108.64	3.80	125.81	101.81	105.41	168.81	100.00	96.20
Sweden (34)	97.66	+2.8	78.89	85.45	2.67	95.00	76.88	83.43	136.64	88.50	96.78
Switzerland (53)	81.21	+0.8	65.59	66.30	2.48	80.58	65.21	66.37	111.11	73.65	94.53
United Kingdom (332)	128.32	+1.3	103.64	103.64	4.48	126.71	102.54	102.54	162.87	99.65	94.38
USA (582)	98.99	−1.8	79.95	98.99	3.72	100.80	81.58	100.80	137.42	91.21	102.30
Europe (947)	102.44	+0.9	82.75	85.12	3.95	101.50	82.14	84.65	130.02	92.25	95.29
Pacific Basin (673)	141.46	+1.3	114.26	113.98	0.80	139.61	112.98	113.43	158.77	100.00	96.79
Euro–Pacific (1620)	125.89	+1.2	101.68	102.45	1.83	124.40	100.67	101.94	143.65	100.00	96.20
North America (709)	99.47	−1.7	80.34	99.19	3.68	101.23	81.92	100.95	137.55	91.68	102.15
Europe Ex. UK (615)	86.39	+0.6	69.78	73.49	3.46	85.86	69.49	73.43	111.97	78.89	95.86
Pacific Ex. Japan (216)	89.95	+0.8	72.66	84.60	4.95	89.22	72.21	84.13	164.03	82.92	97.62
World Ex. US (1822)	125.41	+1.1	101.30	102.49	1.90	124.01	100.36	102.02	143.38	100.00	96.40
World Ex. UK (2072)	113.90	+0.0	92.00	101.09	2.28	113.89	92.16	101.55	138.82	100.00	99.11
World Ex. So. Af. (2343)	115.02	+0.1	92.90	101.34	2.49	114.86	92.95	101.65	139.47	100.00	98.66
World Ex. Japan (1947)	100.55	−0.7	81.22	93.78	3.83	101.25	81.94	94.58	134.22	92.98	99.63
The World Index (2404)	115.18	+0.1	93.03	101.31	2.50	115.02	93.08	101.62	139.73	100.00	98.69

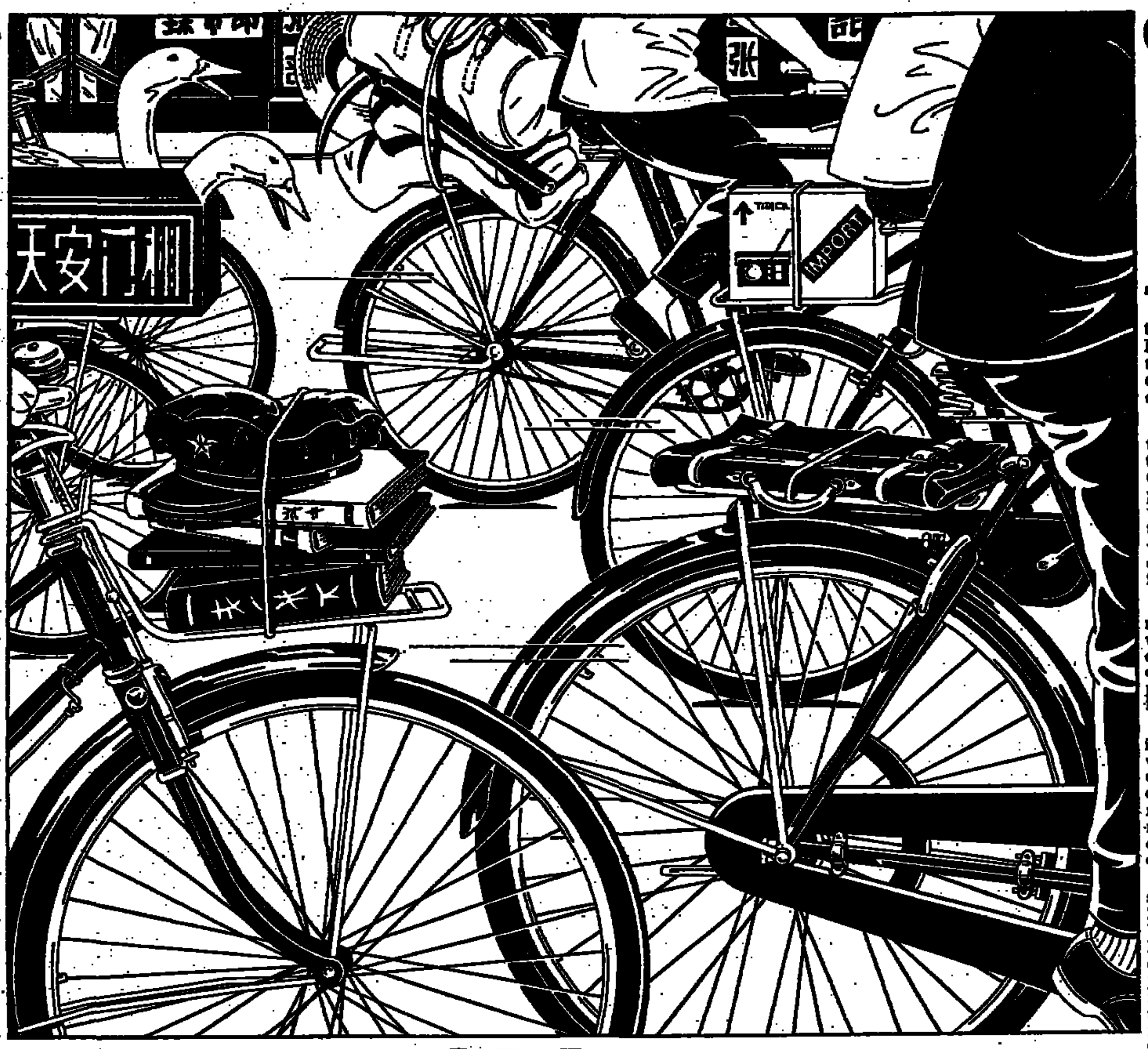
Base values Dec 31, 1986 = 100

SECTION III

FINANCIAL TIMES SURVEY

Potential for change is profound. A younger and better-educated new Politbureau has been elected, economic restructuring is under way, and creative freedom has increased. Critical problems remain, however, any one of which could halt change, reports **Colina MacDougall**

On the road to reform



China

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SYMBOLISING the upheavals almost everywhere transforming China, the capital, Peking, has altered in the last 10 years from an overgrown township of near-mediaeval lanes and primitive factories to an urban sprawl with high-rise blocks, ring roads and glossy skyscrapers.

The subdued blue and olive crowds which pack the streets are nowadays dotted with multi-coloured anoraks and young men in mirror sunglasses. Shiny new cars jostle the millions of cyclists for increasingly congested road-space.

In the lanes, the street traders - inconceivable in the 1970s - mutter "change money", "change money" as they lurk among the down jackets and (what purport to be) Hardy Amies coats. The much-prized foreign exchange certificates issued to visitors give ordinary Chinese access to shops and hotels they would never otherwise be able to enter.

China is in a state of transition from 30 years of dogmatic socialism to an unknown future. Watching over it from a distance is 82-year-old supreme leader Deng Xiaoping, the single most powerful force behind the reform. He retired in November from his post on the Politbureau standing committee, but will keep his power as an elder statesman till the day he dies.

This transition will be eased by the present low-profile foreign policy which gives the country a breathing space to focus without distraction on its domestic affairs.

With the US, China has reached a plateau of good relations only marred occasionally by incidents such as argument over human rights in Tibet. Towards the USSR it maintains cool but beneficial ties which keep its borders quiet and bring trade. And in Asia, while relations with Japan remain slightly uneasy, the ice in India and Indochina seems about to thaw.

Hu Yaobang, the excitable former party general secretary who lost his job after the student demonstrations last winter, said in 1984 as China embarked on its urban economic reform programme that it was a second revolution as important as the first, communist, one. At the time, it seemed like a piece of typically Hu hyperbole.

Now, as China moves to a second generation of post-1949 leaders and the new economic policies bite more deeply, the potential for change indeed looks profound.

How serious the Chinese are about this change was underlined by the then Premier Zhao Ziyang at the party Congress last month. He made a formal definition of China's ideological position, saying it was in the initial stage of socialism which would last until the middle of the next century. He could hardly have done so unless the idea had earlier been accepted by the party.

The concept allows the country to experiment with any economic measures, no matter how seemingly capitalist, to help it out of poverty. "Marx did not know anything about oriental countries," officials from the theoretical party journal, Red Flag, commented last month.

To mastermind these experiments, the new 18-strong Politbureau elected at the congress looks appropriate. Younger and more educated than the previous one, a third or more have university education (curiously, all are engineers). Most of the others are long-time government and party administrators, while the army, in the past a strong caucus of tough and narrow men within the leaderdership, is now represented by just two members.

There are other signs of impending change. Zhao's speech contained important references to the separation of party and managerial powers, a proposal designed to make enterprises more efficient by trying to ensure they are run by technocrats. While this has been urged before, the move has now been definitively ratified.

Even on the intellectual level, things look better than they have done since the anti-bourgeois liberal campaign earlier this year. The astrophysicist, Professor Fang Lizhi, who lost his job last winter because of his role in the student demonstrations, has been allowed to travel abroad and communicate with journalists.

The deputy minister of culture, the actor Ying Ruocheng, claims China is at the start of a new era. "We don't have creative freedom on a plate," he said recently, "but writers are encouraged to produce more interesting things".

China's economic reform, which earlier seemed on hold because of its practical and political problems, has also been given a shot in the arm. Premier Zhao's party congress report outlined the reform programme in general terms and Director Song Tingming of the Commission for Restructuring the Economy last month described the specific steps for next year.

These included freedom to buy and sell house and land leases, aided by the establishment of special house banks which would operate like building societies. New investment corporations would take over the bulk of financing large national projects, thus putting an end (providing they work) to the system of state grants.

A whole raft of other reforms undergoing pilot tests, like the bond issuing system and reorganisation of the banks, are also going ahead. Given the frozen nature of Chinese ideology and economic thinking just a few years ago, these are astonishingly bold.

On the vexed question of the bankruptcy law, which has been seen as a touchstone of whether the reformists in the leadership will prevail, director Song said that this would be adjusted to prevent workers losing their jobs. This compromise suggests that though the reformers have had to concede some ground to the conservatives, they are still determinedly pushing on with change.

But in this momentous transition from Marxist dinosaur to fitter and more flexible giant, China still faces truly enormous problems. One is the leadership, which though the Chinese reject the western division into conservatives and reformers, is still obviously split on how far and fast the reform should go.

Another is the problem of making the new reform policies work. The third is whether, with or without reform, the economy can grow fast enough to bring prosperity to its rapidly expanding population.

The post-November leadership is probably as divided as the previous one, which contained several top men committed to old-fashioned Marxism. Among members of the new Politbureau not many are associated with the conceptual side of the reforms, one Peking diplomat pointed out.

Possibly only the new general secretary, former premier Zhao Ziyang, and his predecessor Hu Yaobang fall into that category. Both may have now been weakened, Zhao through moving to party work from his old government fief and Hu by his fall from the Politbureau standing committee. The beneficiaries of the Congress, notably acting premier Li Peng and dark horse Qiao Shi, both quite young, are not obviously reformers.

The elderly conservatives who retired at the congress will keep their influence, just like Deng. Since the new Politbureau must have been the outcome of tough bargaining, they will have their proteges, also just like Deng. Although the new Politbureau seems bent on modernising the economy, there are no spokesmen for genuine political reform.

But the student demonstrations last winter were a sign of real, if unfocussed, demand for a freer system. The students were docile enough when the leadership clamped down in January, but, as this month's protest by foreign trade students indicates, they remain dissatisfied with their living conditions and feel the lack of means to express their discontent legitimately.

Intellectuals other than official spokesmen like Vice-minister Ying are intensely cautious about predicting any kind of renewed free expression. And until the leadership can make real concessions to its educated elite, true modernisation may remain a dream.

The keystone of the economic reform, the freeing of prices, has been postponed. Alarmed by inflationary pressures, the government has backed off this controversial issue. Some commodities which were earlier controlled can be bought and sold freely, but the government has consistently drawn the line at revaluing the basic items like coal, the low price of which distorts the entire economy.

It took fright just two weeks ago at the high price of pork and sugar and put them on ration, for the first time in years. Deng's successful reforms had earlier meant that even if supplies were erratic, it was usually plentiful. It is true that complaints about rising prices have been gathering speed, but the move suggests that the new leadership may not have the necessary commitment to make the reform work.

Worse, taking bold reformist steps will become increasingly difficult as the gains produced in recent years by the first round of reforms become steadily more difficult to maintain. This applies particularly to agriculture where de-collectivisation seriously reduced investment in farming and led to declines in essential inputs like irrigation and fertiliser.

Controlling industry, now that managers have a degree of freedom and funds can be raised from the banks instead of the central bureaucracy, has become a serious problem. On paper, output has risen hugely in recent years, but productivity much less so. And the central government in Peking has not been able to stop enterprises from spending freely on capital construction, while itself running short of funds for vital infrastructure.

China is faced with critical problems, any one of which could shipwreck the vital transition it is now engaged in. In the end the leadership may be too fearful of the consequences to press ahead with controversial reforms. But unless it does so, the potential which the changes of recent years have so clearly unlocked is not likely ever to be realised.

Robert Thomson considers this year's landmark political changes

Veterans still in the wings

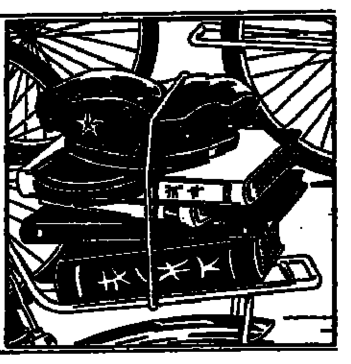
WHEN CHINA'S new Premier, Li Peng, delivered a speech of thanks to the officials anointing him, he noted that the Communist Party veterans would have an important role in fashioning policy and confessed that he would certainly be seeking their wise counsel.

The geriatric factor of Chinese politics has taken a new form since the landmark Party Congress of a few weeks ago. At that gathering, just over 90 officials departed from the Central Committee, and the elite five-man Politbureau Standing Committee was overhauled, gaining four new members and a sense of purpose previously lost through the onset of senility and ill-health.

To have secured the retirement of the officials was a major victory for the paramount leader, Deng Xiaoping, who handed in his standing committee and central advisory commission titles as an example to his comrades. Yet Mr Deng, 83, embodies the contradictions of the pension plan, as he will continue to have the last word in Chinese politics.

The thrust of the personnel and structural changes was to formalise party procedure and do away with the informal decision-making and personal power-broking that has characterised Communist rule. China suffered under the idiosyncrasies of Mao Zedong, and the party is attempting to ensure that whim never again dictates policy.

Attempts are being made by the party to ensure that whim never again dictates policy



In theory, the changes institutionalise procedure, but in practice, it will be difficult to contain the energies of several elderly officials who still feel that they have an "historical role" to play. In the past, those officials have used posts in, say, the secretariat, to wield influence that the title alone does not provide. Removing the title will not necessarily remove the influence.

A senior Politbureau member, Wu Xueqian, the Foreign Minister, said party veterans are "very much interested" in reform and "we would welcome them to forward their suggestions and views: on the other hand, if we are unclear on some major policy issues, we can seek the advice and guidance of Deng Xiaoping. I don't think there is a question of their interfering in affairs."

Chinese politics is a confusing mixture of old friendships and grudges, of deeply-held beliefs and opportunism, of subtle campaigns to undermine and blatant disregard or blind support of party policy. A telling example of the conflicting forces at work is the removal in January of Hu Yaobang as Party General Secretary.

An unconstitutional "special" meeting of the Politbureau was stacked with elderly officials who voted to dump Mr Hu, ostensibly for his unwillingness to make collective decisions, but actually for a collection of personal and political reasons, including his enthusiasm for the wholesale retirement of the geriatric generation. Mr Hu even dared suggest that Deng Xiaoping would do the country a favour by stepping down.

Optimistic diplomats note that Mr Hu has kept his place on the Politbureau, and both the pessimistic and optimistic welcome the appointment of Zhao Ziyang. The capable Mr Zhao has broader appeal to ordinary Chinese and also the respect of older officials and the military, which had shown unease in the company of Mr Hu.

The People's Army is overseen by the Central Military Commission, which Deng Xiaoping still heads. The key to the succession is that Zhao has been appointed senior vice-chairman of the Commission, putting him first in line to take the helm after Mr Deng. It is only through death that he and some of his comrades will be relieved of their duties.

Mr Deng has initiated reform and guided the programme through difficult times. It is only he who has the power to mobilise a clutch of elderly officials should he feel that Zhao is leading the country astray or undermining his power.

Lesser officials can sense that their power is being undermined by plans to separate the party from the Government. However, the party has little intention of making itself redundant and has already shown that an unorthodox interpretation of "separation" has been adopted.

In the official report of Li Peng's appointment as Premier, which followed Zhao's handing in the post to concentrate on party work, the moves were hailed as a victory for the "separation of party and Government." The report failed to mention that Li Peng is the No 2 man in the party, second only to Zhao in power.

As with the proposals for political reform, provincial officials are awaiting the practical consequences of the party's decision that it is in the "initial stage of socialism." The party reckons that the stage will last until 2050, and in the meantime, the use of capitalistic devices to develop the economy is fully justified.

For the moment, the acceptance of these reference points on the ideological map has eased the discomfort party officials have felt at the widening gap between ideology and policy. The long-term acceptance of the interpretation and the stability of Chinese politics in general now depends on economic performance. If inflation runs out of control and if popular sentiment swings against reform, the present leadership will be open to attack on the grounds that the "initial stage of socialism" is a fallacy.

If the economy is controlled and the masses can feel the width of the benefits of reform, the "initial stage" theory will be accepted. A related problem is the possibility of the party losing its nerve. Deng has often compared reform in China to changes in Poland and has praised its Government for squashing the Solidarity trade union. He and others would be perturbed by the recent Polish referendum result that left reform in limbo and by the prospects of urban unrest in China.

A newly promoted Politbureau member, Li Ruihuan, the Mayor of Tianjin, explained that the party has "to be patient with the masses in introducing price reforms that could lead to increased inflation: you can't introduce price reform rapidly. There is a lot of ideological work to be done. A lot of people are not willing to accept price rises."

The party has bought time by halting the widening of the reforms, and attempted to curb popular concern about pork supplies by reintroducing ration tickets in many cities. A professor of economics mused: "After nine years of reform, coupons appear. It is food for thought."

The advantages of reform were clearly visible on market stalls and in the fields a few years ago but expectations are now greater, while the reform of the urban structure is proving more difficult and providing less obvious short-term benefits.

Reformers are dependent on popular support for the introduction of measures that weak-at-the-knees officials would prefer deferred. Ideologically suspect reforms have been pushed past party ideologues by citing favourable public response as evidence of their worth. An orgy of opinion polling during the recent party congress reflected the leadership's concern at the state of the public mind.

The newcomers to the Politbureau appear to be successful reformers, yet much about them remains unknown. There is no access to the Chinese equivalent of parliamentary debates. A final decision is released, and, in public, party members fall in line behind that policy.

Yet officials lament that foreign analysts type-cast Chinese politicians as conservatives or reformers, and that Li Peng, the new Premier, has been labelled as pro-Soviet because he was educated in Moscow and speaks Russian. "This is too superficial," a frustrated official said.

The party has shown no willingness to provide access to the thoughts of individual party members, and so Li Peng remains a mystery, as do two of his colleagues on the powerful Politbureau standing committee, Qiao Shi and Yao Yilin. This ignorance is shared even by ordinary party members, who often ask foreign journalists for the latest Communist gossip.

Hence, sudden moves, such as the dumping of Hu Yaobang, remain a possibility despite the rise of the reformers. The party has realised that "openness" will score points here and abroad, but until the leadership is truly open, judgment must be reserved on the claim that political campaigns and purges are things of the past.

China has now become the world's fourth largest arms supplier

China's forces

Business as usual

ALTHOUGH POLITICAL and military developments in China are closely interlinked, the tremors which shook the Chinese political landscape this year as a result of a renewed struggle between reformist and conservative leaders had no noticeable effect on the People's Liberation Army (PLA).

In the military establishment, these tremors did not dilute the intensity of the ongoing effort to modernise the PLA. Nor did they draw the PLA into an enlarged political role. For the military, it was business as usual.

And its usual business in recent years has been to carry out the reform programme mapped out by the Deng leadership. Aimed at improving the fighting capacity of China's armed forces, this programme envisages the incremental upgrading of weapons coupled with a complete overhaul of the PLA's organisational structures, personnel make-up and operational practices. That purpose was strongly reaffirmed in both statements and actions this year.

The most important statements were made by Zhang Aiping, the Defence Minister, on the 60th anniversary of the PLA's founding. Although the international situation was peaceful, Zhang said, complacency was not in order. The threat from China's borders had not been removed, and the Vietnamese were still troublemakers.

While China's armed forces did not have to be on constant alert, neither could they slacken their efforts to modernise. The gap between their level and the demands of modern warfare was still huge and had to be narrowed gradually. Even though the main national effort was on economic development, appropriate resources should be allocated to this end.

It is not difficult to see why Mr Zhang is dissatisfied with the defence appropriations. The stated military budget this year amounts to slightly over Yuan 20bn, about the same as last year. However – and this is the crux of the matter – despite the leadership's intimations that the rise in defence expenditure would match economic progress, the opposite has happened.

The percentage of the national budget devoted to defence has fallen sharply - from a post-Mao peak of about 20 per cent during the 1979 Vietnam war to 15 per cent in 1984, 12 per cent in 1985, 10 per cent in 1986, and slightly over 8 per cent this year.

Despite pressure from the military for more money, there is no indication that the Deng leadership is inclined to change its policy. Statements by leaders and articles in the military press have forcefully reiterated the commitment to military modernisation but cautioned that this would have to be achieved without substantial budgetary increases.

The Defence Minister's reservations about resource allocations may have been one reason for his exclusion from the new Central Committee elected by the 13th Party Congress, although there were probably other reasons as well - his rumoured ill-health and the wholesale replacement of veteran leaders by younger ones. In any event, the differences which resurfaced this year spotlight a basic dilemma facing the leadership in its relations with the PLA: how to promote military professionalism without providing the professional military with the modern hardware which their increasingly specialised outlook and sense of duty demand.

So far, the leadership has contained these differences by pursuing a policy that concentrates on improving existing weapons while allowing for the production of some new ones and for limited imports of military technology, but without large new outlays in defence spending. This policy has ensured a harmonious relationship with the military which, despite the demands for more funds, has not been disrupted.

In line with this policy, new developments were reported in all the services. The ground forces introduced a new main battle tank, designated the Type 79. Based on the Type 69 - itself a derivative of an old Soviet model - this tank has a new gun, is heavier, and has a simplified fire-control system and night vision equipment. In addition, several new types of armoured personnel carriers were produced.

The navy was reportedly building two new modified versions of its basic light frigate, one designed to incorporate recent advances in missile technology, the other equipped with a helicopter deck. The air force was outfitting the A-5 attack aircraft, based on the MiG-19, with avionics from Italy, and incorporating American technology into its new F-8 supersonic all-weather fighter-interceptor.

Other deals, concluded or in the offing, included an agreement to purchase French helicopters armed with anti-tank missiles, an agreement with a British firm for the outfitting of Chinese vessels with weapons and electronics, the purchase of radar and radio equipment from an American company, and a memorandum of understanding with a British firm for the equipping of Chinese combat aircraft with an air refuelling capability. In addition, China's Defence Ministry was seeking bids from at least five West European countries for the supply of equipment for new Chinese-designed diesel-electric submarines.

Some of the funding for the PLA's weapons modernisation apparently comes from China's arms sales, the volume of which in recent years - estimated at more than $5bn between 1983 and 1986 - has catapulted China to the position of the world's fourth largest arms supplier. Reported transactions this year included a $10m sale of tanks and anti-tank guns to Thailand, negotiations for the purchase by Brazil of F-7M Airguard fighters and the possible acquisition by Pakistan of a modified F-7M fighter into which US engines and avionics may be incorporated.

But the largest deals were the officially-unreported ones and these continued to involve the delivery of weapons and equipment to Iraq and especially to Iran. Most ominous was the alleged supply of more than 100 new Silkworm missiles, which have already struck US-owned or US-flagged oil tankers and have been responsible for a major escalation of hostilities in the Persian Gulf. Although the Chinese denied selling Silkworms to Iran, following American pressure they announced that they would not sell any more of these missiles.

During the leadership conflict which erupted this year the PLA stayed on the sidelines - in keeping with the trend that has marked civil-military relations under the Deng administration. This trend was consolidated by the decisions of the 13th Party Congress. Two military men - Yang Dezhi, the chief-of-staff, and Yu Qiuli, were dropped from the Politbureau and only one military representative was elected - Qin Jiwei, commander of the Peking Military Region. A new chief of staff, Chi Haotian, was announced at the end of November.

The proportion of military men in the Central Committee was likewise reduced. Yet PLA delegates to the Congress voiced wholehearted support for the programme presented by the new party leader, Zhao Ziyang, a programme that is a ringing reaffirmation of Deng's policies.

Most important, Deng Xiaoping retained his post as chairman of the Military Affairs Commission while giving up his other positions. Deng has been instrumental in launching the modernisation of the PLA and moving it out of politics and he personifies the co-operative relationship worked out by political and military leaders. It will be up to Zhao, who as the new first vice-chairman of the Military Commission is slated to succeed Deng in that capacity, to ensure that this relationship endures.

Ellis Joffe

The student movement, for the moment, has gone to ground

All quiet on the campuses

JUST ON a year ago, thousands of inspired Chinese students were in the streets of Shanghai demanding democracy and taunting Communist Party leaders. On the fringe of People's Square, a student swore that he and others would maintain their rage until the Government gave in.

Now, the student movement has gone underground. It has been buried under the students' disparate goals and fears, and throttled by a Communist Party still in control of the campuses. The movement had no leaders and no clear aim and, in the end, no means of maintaining momentum.

Yet the conditions that fashioned the spontaneous protests have not disappeared. Chinese students are increasingly aware that the Communist definition of democracy differs from that of the West. They know individual freedoms in China are still limited. And the food in campus cafes is still lousy, the dormitories are crowded and the job assignment system often unfair.

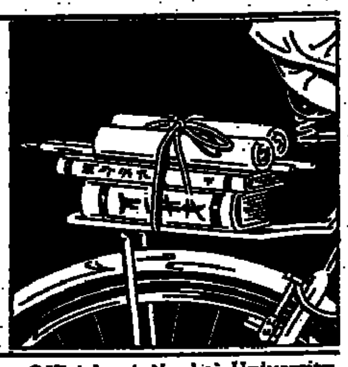
"We still want the same things. A lot of students who didn't participate agreed with the protests, but they are too busy with their studies. They just want to get good marks," explains a student from Qinghua University in Peking. She was among those too busy last year, but says she will take to the streets if there are more pro-democracy protests.

Another Qinghua student emphasises that most of the protesters were not sure about what they meant by democracy: "I supported the protests, but China has to have the Communist Party. We can't afford to have many parties. It would be chaos. How many parties does your country have?"

Students were surprised and even frightened by the impact of the protests, which spread through more than 20 cities. In early January, a party campaign against "bourgeois liberalism" gathered pace and in mid-January, the Communist Party boss, Hu Yaobang, was forced to resign. A student from Peking University said that no-one wanted the fall of Mr Hu, who was perceived as a liberal.

The demonstrators partly drew their strength from past student protests that have been enshrined as glorious Communist history. The May 4 movement of 1919, demonstrations during the early 1930s against creeping Japanese control, and protests in the late 1940s against Nationalist rule are lauded in the standard texts, and students are taught to be aware of their revolutionary role.

Events of the last year emphasise the important role students have always played in politics



However, in assessing the protests of late last year, the party chose to compare the students' actions to the mayhem caused by young Red Guards during the Cultural Revolution (1966-76), when Mao Zedong attempted to use the country's youth to overturn the bureaucratic order and create a permanent state of revolution. The comparison is ill-founded, as party officials orchestrated the Red Guard movement, and unlike them, the students last year were generally well-behaved.

Yet the movement's lack of cohesion enabled the party to blame a few criminals, spies and deviant workers for the demonstrations, and to absolve most of the students from their sins. Three intellectuals were isolated: an astrophysicist, Fang Lizhi, sometimes referred to as "China's Sakharov", a journalist, Liu Binyan, and a writer, Wang Ruowang.

Professor Feng Chengbai, vice-chairman of the international studies department of Nankai University in Tianjin, suggests that every Chinese university student knows of but "not many agree with" Prof Fang, whose thoughts on democracy were plastered around Chinese campuses in the weeks leading up to the protests and who lost his job shortly thereafter.

Many of the students latched onto Prof Fang simply because they sought a focus. He is one of the few intellectuals to articulate controversial thoughts on democracy, asserting that democracy is a basic human right and not, as the party believes, a right that it can grant to the Chinese people.

In fact, Prof Fang has made even more inflammatory comments that have been widely distributed in universities without inciting unrest in interviews in recent months with foreign journals. The professor, a party member until this year, suggested that every page of basic Communist texts contained errors, and that the Communist Party and Karl Marx had done little or nothing for China.

Officials at Nankai University claim, as the party dictates, that the protests were "mainly caused by outside forces," an explanation which avoids admitting the existence of student dissatisfaction and disillusionment. One Nankai administrator said that the campus had been kept quiet and the students have adopted a more "realistic" attitude because "we strengthened their ties with society." That was partly done by telling parents to write letters to students urging them to devote their energies to study and to realise their responsibility to society, and by sending students on trips to meet the masses.

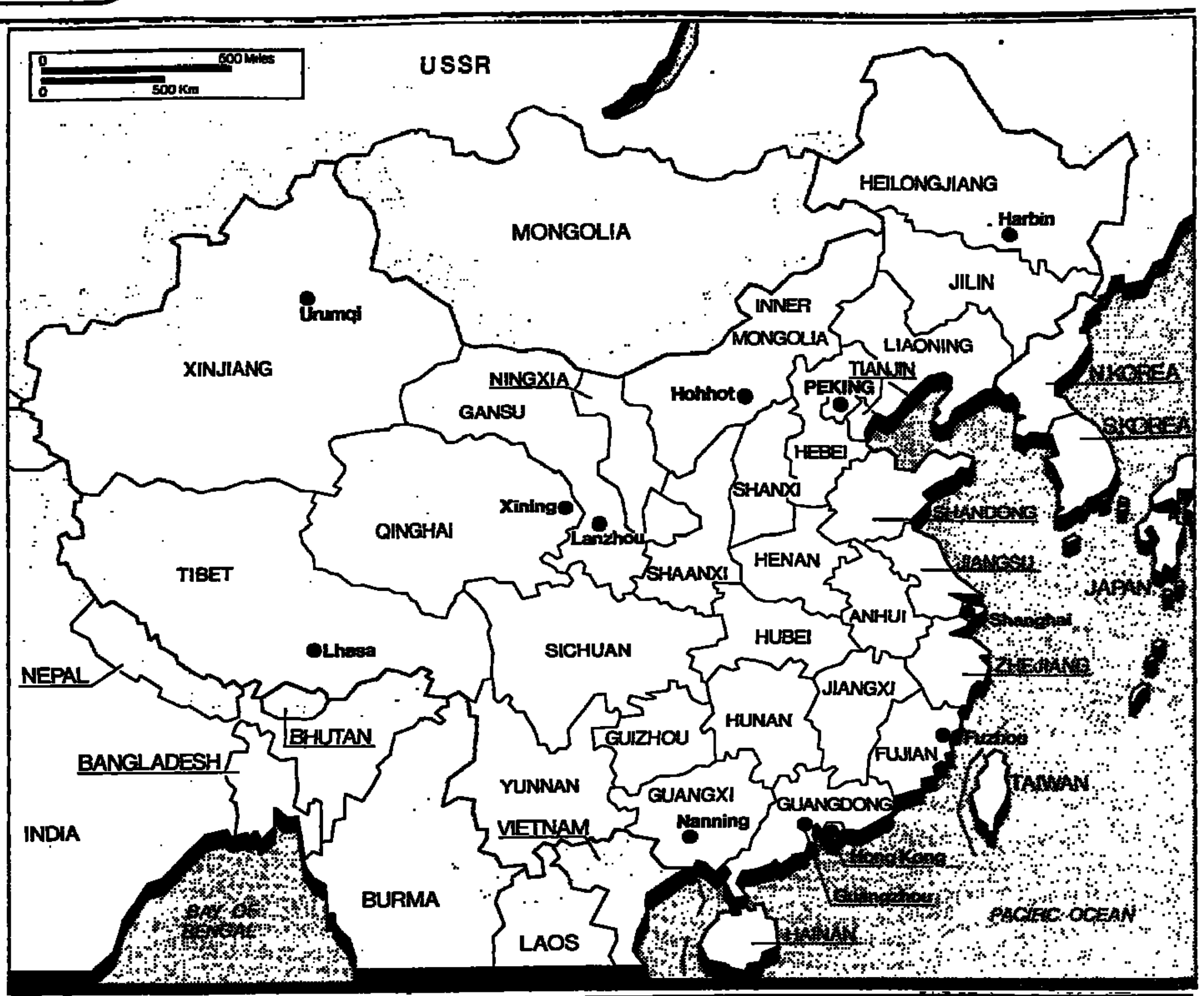
Many graduates must now spend a year working in the provinces to complete their education. The party has tightened its control over the Communist Youth League - many protesters were members. A young Peking rebel explains: "You have no choice but to join the League. If you don't join, people start asking questions."

University officials attempted to identify protest organisers, and there is strong evidence that students have been expelled from universities around the country for participating in protests, while others have been warned that they will be assigned extremely unpleasant jobs if they again step out of line.

The party's pervasiveness has kept the campuses quiet, and strict study rules have meant that, unlike students in the West, Chinese students rarely have the time or the means to organise demonstrations. Yet further protests are a possibility, especially if the country's reformist leadership is thought to be under attack by conservative Communists.

Students have played an important political role in the past. They have been used by the party and used by factions within the party against other factions. What most bothers conservatives is that, despite the Youth League and relentless propaganda, students have developed strong political and philosophical views well outside the boundaries defined by the party line. Standing outside that line is the first step to taking to the streets.

Robert Thomson



A policeman holding back students who broke through a cordon around Peking's Tiananmen Square in January

A quarter of the population is illiterate

Tackling a shortage of skilled manpower

EVERYWHERE IN China, the story is the same. Factories, stores and government bureaux are radically altering the way they manage their affairs.

The Government is setting up new administrative offices to regulate emerging markets, while trimming back departments that once exercised tight control over the economy. Factories are rushing to import new technology from the West - the most advanced they can afford, or at least the most advanced that Western governments will let them have. New accounting standards are being adopted, new methods of paying taxes, calculating profits, keeping track of operating costs, and, of course, figuring bonuses.

But where are the people who have the knowledge and the skills, let alone any experience, to manage these new ways of doing business? The boxes of new imported equipment, sitting in crates on factory floors all over China, waiting for the "foreign expert" to come to instal them, have become the best indicators of China's severe shortage of trained manpower.

The problem now lies at the crux of China's inability to push forward with reforms in the economy and it is for this reason that at this year's 13th Chinese Communist Party Congress, General Secretary Zhao Ziyang listed improvements in education as the highest priority facing the nation.

The concepts of where China's leaders want to move the country are very clear. But China does not now have the trained personnel capable of taking China there. The Government admits that one quarter of China's population is still illiterate. That is over 250m people, and many believe that the numbers of people who would be considered functionally illiterate is significantly higher.

In the short term, there is probably little that can be done about this. Money, of course, is being spent, more every year and education is one of the fastest rising expenditure items in the national budget. State budgetary allocations for educational operating expenses have risen from Yuan 6.56bn (5.9 per cent of state budgetary expenditures) in 1978 to Yuan 21.43bn (9.5 per cent) in 1986, and are continuing to go up at 15.9 per cent annually.

Now the Government has committed itself, at least in principle, to a national nine-year education system. The rise in spending and the pronouncement of lofty goals, however, mask a fairly complex re-ordering of priorities in the past decade that have both helped and hurt China. China has clearly succeeded in taking most politics out of education, and vastly raising standards, particularly for higher education. But the price paid has been a sharp reduction in the availability of mass education.

Thousands of primary and secondary schools, some supported by local government funds, closed their doors after the Cultural Revolution. Standards at those schools were unacceptably low, but the reintroduction of an elite-oriented education system has brought with it political strains, thus prompting the Government to announce universalisation of lower-middle school education and the abolition of post-primary school entrance examinations.

The policy, however, is really just wishful thinking for the present. Mr Liu Zhongde, vice-chairman of the State Education Commission, says the system is expected to be realised in urban coastal areas by the end of the decade, in other moderately developed areas by 1995, with the rest of China put on hold until into the next century.

The Cultural Revolution education policies had the effect of broadening mass education, lowering standards and cutting off the top of the educational pyramid. Higher education was starved of funds, and this is the area that has received the most attention in recent years. Some 2.16m university students have graduated in the past nine years, equal to the total number of graduates in the previous 28 years. Operating expenditures for higher education have more than quadrupled since 1977, and the latest available figures for capital spending show higher education getting 50 per cent more than general education in 1985.

On top of this, faculties are now able to compete for research monies from production enterprises and administrative units, and this indeed now provides the main support for academic research. International exchange programmes have sent thousands of scholars abroad, and brought leading academics to China. This, plus increased budgets to import foreign academic books and periodicals, have in a real sense restored a sense of normality to the campuses, the feeling that Chinese scholars can once again claim to be part of a world community of learned people.

Westerners who have close contact with Chinese universities across the nation speak of amazement at the degree of campus freedom, at the open atmosphere where widespread debate flourishes. It thus came as a rather severe shock a year ago, amid all this apparent good news, that China's students took to the streets in major cities to protest at conditions in the universities and at China's political backwardness, apparently supported by leading academics such as the the physicist Fang Lizhi.

The post-mortem on the demonstrations, that eventually led to the downfall of Hu Yaobang, the Communist Party General Secretary, is that the students were unrealistic and naive about their own role and political possibilities for affecting China's political development. That view is shared by academics, diplomats and many of the students themselves.

The reaction was to raise once again the spectre of increased political control over campuses. Student political education was increased, political criteria were taken into account at university entrance-time, and some manual labour became part of the summer vacation, although this was later softened to become "social investigations," meaning whirlwind tours of factories or administrative units.

Faculty members say that their students have changed over the years. In the immediate post-cultural revolution years, says Mr Yu Di, president of the Peking College of Economics, students were more mature because they came with substantial work experience under their belt. They were better able to absorb their studies and fit into production units after graduation.

In recent years, however, new students have seen little besides the inside of a classroom while they grew up, and do not have a strong sense of realism. But what the lack of "realism" also means is that students do not have deep reverence for the principles that still in theory guide Chinese intellectual life, namely Marxism and socialism.

Education was intentionally depoliticised by the Government, and this is the natural result. Economics teachers at the Peking College of Economics insist that Marxist theory is the foundation for all their teaching and must continue to be a basic required course. But, says one student: "Marxism is just a dead and boring theory. Students are forced to study it, but they are much more interested in reading works by authors like Jean-Paul Sartre."

China's students appear to have become free thinkers, much to the dismay of party officials, although they do not appear to be highly politicised. Rather, they are interested in money, and competition for the best jobs after graduation has contributed further to mismatches in the job allocation system.

China has become famous for assigning physics graduates to rural research institutes, or putting chemists into electronics factories. In order to combat this, universities have begun to forge direct links with enterprises, which make specific requests for graduates with certain qualifications. But the mismatches continue because, although universities now have the final say on job assignments, they usually allow students with the highest grades their pick of the best jobs.

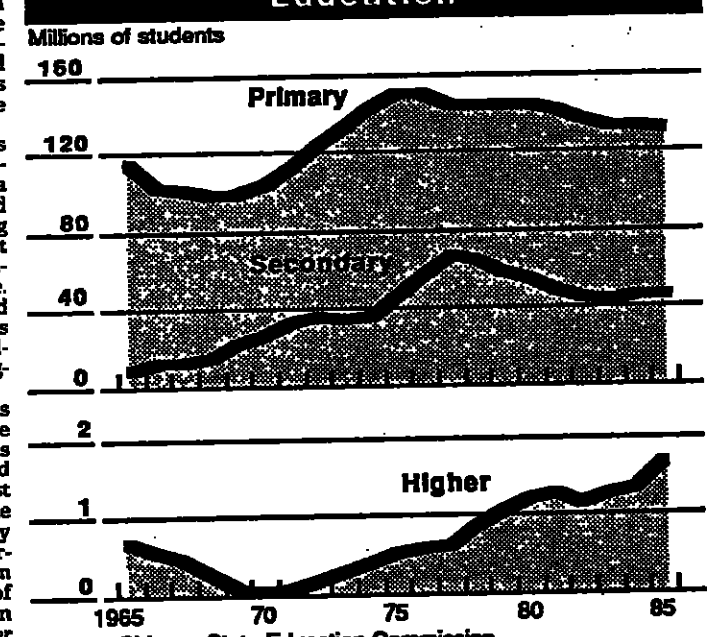
Past treatment of and current payment for teachers also continue to cast a long shadow over the education system. Although basic wages for teachers at all levels have gone up dramatically on paper, and primary and middle school teachers are now set for another 10 per cent rise, teachers have no way to earn the fat bonuses received by production and service workers.

Thus, a professor at Peking University is likely to earn less than a taxi driver. This runs counter to the traditional Chinese sense of priorities and has caused some students to go to great lengths to avoid jobs in education.

It was perhaps inevitable that the cutbacks in higher education during the Cultural Revolution, followed by a complete reversal of educational priorities, would result in false steps, and it seems fair to say that the China's current educational institutions are far better suited to its needs for modernisation. But the benefits of the extra resources that the Chinese are pouring into their educational system will take many years to be fully felt, and until then the lack of trained manpower will act as a brake on the entire modernisation drive.

Steven Butler

Education



Source: Chinese State Education Commission


Schoolchildren playing by a rock pool in Shanghai

Qinghua University

Exciting period for researchers

IT IS hard for Prof Cui Guowen and Prof Fan Chongcheng to contain their enthusiasm as they show a visitor through room after room of sparkling new electromagnetic spectroscopes, lasers, electron microscopes and rooms with hundreds of computer terminals.

The tour is through Qinghua University in Peking, one of China's top engineering universities, where Prof Cui is Associate Professor of Materials Science and Prof Fan teaches and conducts research into information electronics, and is an expert on fibre and intregrated optics.

Just over a decade ago, during the Cultural Revolution, both men were barred from conducting any research at all. But the past decade has been one of almost unparalleled good news for China's elite universities. Money has rolled in from the Government, anxious to turn out a cadre of scientists and technicians capable of leading China's modernisation drive.

International support has been forthcoming, including a World Bank loan to fund the purchase of Qinghua's computer facilities. China's own factories and industrial bureaux have been anxious to tap the expertise of Qinghua's scientists and engineers and now provide a major portion of funding for applied research.

The rebuilding of China's university system from the devastation of the Cultural Revolution was a slow process. The national university entrance examination was revived in 1977, and a formal degree system, including master's and doctorate degrees, was instituted in 1981.

Qinghua has now expanded to include 26 departments offering master's degrees in 83 fields, and doctorates in 54 fields. Some 10,800 undergraduates are currently enrolled, along with 3,000 graduate students, and 3,000 continuing education students.

The vastly increased support for high education, however, has not resolved all the questions about the proper role the university should play in China's development efforts.

The outburst of student demonstrations a year ago raised the spectre again of introducing political criteria for admitting students and stepping up political control of campuses.

This appears not to have taken place, however, and Prof Wu Chi, an automation specialist, perhaps best sums up the consensus. "You can't begin to talk about the political qualifications of high school students," he says. "They do not even know what is Communism, socialism, or capitalism."

The professors support the notion that students should get out of the classroom for some practical experience. "We don't think that the door-to-door policy for graduate schools is good," says Prof Zhou Zhao-ying, director of teaching affairs. Instead, Qinghua encourages students to leave university and work in a production unit for a few years before continuing studies, and will hold open a place for a higher degree in the interim.

China's new materialism has placed other pressures on Qinghua. For one, the university's five-year course of studies, originally instituted to raise training standards, now appears to delay the time when students can get out of school and earn a salary. Pressure to reduce this to four years is rising.

There is also concern about whether sufficient funds are being allotted for basic research, with all the effort to apply scientific and technical expertise to China's modernisation. The principle that basic research is absolutely vital for the long-term development of technology is accepted, but debate continues over whether a proper mix has been struck in China.

Qinghua assesses a charge on all outside research grants, which are inevitably for applied research, to cover general administrative expenses and put some aside for basic research. But some believe this is not enough.

"For a university like Qinghua, I think we should get more funding for theoretical and basic research," says Prof Wu. "It is very hard to get funds for basic research. For professors at other universities it is worse."

The reform process will inevitably go on as the universities adjust to changing political and social pressures. But the underlying good news story is that at least within the university gates the role of intellectual development, of debate and criticism is now well-established.

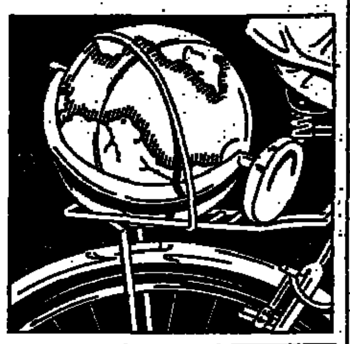
Chinese intellectuals are engaged in a wide-ranging search for a solution to the country's development problems, and the search does not stop at China's borders. It is an exciting period, with intellectual freedom growing ever stronger as self-confidence among China's professional thinkers matures.

Steven Butler

David Dodwell on the 'lost territories'

Market fall offers long-term benefits

Hong Kong, Taiwan and, right, the obstacles to improving the country's image and international relations



HONG KONG'S spectacular stock market crash in late October may have tarnished the reputation of the colonial Government, but for Peking the collapse may have done more good than harm.

There was particular irony that in a territory where Peking's actions are so often blamed for triggering anxiety or undermining business confidence, responsibility for this particular debacle could be placed only at the feet of the US markets, local speculators and an ill-prepared colonial administration.

While Sir David Wilson, Hong Kong's Governor, opted to continue a world tour promoting Hong Kong as a centre of free enterprise rather than return to take direct control of crisis management, Xu Jiatun, effectively China's ambassador in the territory, left the Party Congress in Peking to see at first hand how the stock and futures markets were being stabilised.

After an informal briefing on the machinations of futures markets from Mr Willie Purves, chairman of the Hongkong Bank, Xu Jiatun took a direct hand in winning Peking's approval for the Bank of China to join the second phase of the futures exchange rescue. Who would have predicted that China's top diplomat in Hong Kong would come to know more about futures markets than the territory's Governor?

Despite the initial setbacks resulting from the collapse, Peking may also be pleased that the probable long-term outcome will be greater - rather than less - internationalisation of the stock market. Almost certainly, foreign institutional stockbrokers and banks will for the first time win representation on the stock exchange committee. At present the exchange is controlled entirely by local brokers, whose failure to police their own markets unquestionably exacerbated the crisis when it came.

When one examines the hopes China has for the recovery of its "lost territories", the stock market collapse is more important than at first meets the eye.

As Peking's economic reformers consolidate their control, committing the country more firmly than ever to "opening up to the outside world", so Hong Kong assumes increasing importance, not just as a goose that lays golden eggs, but as a springboard for Chinese investment overseas, and a channel for foreign investors to explore opportunities in the mainland.

"China has no interest in a few extra square miles of socialist soil," says Lu Ping, secretary-general of the Hong Kong and Macao affairs office in Peking. "If Hong Kong can retain its capitalist character, that is conducive to Hong Kong, to mainland China and to the whole world. We just hope that Hong Kong people can run Hong Kong well.

"Why should we want Hong Kong to be converted to socialism? We see it as a kind of window to the outside world, a bridge to attract foreign investment and technology. Capitalism in Hong Kong and socialism on the mainland is not contradictory," he insists.

This claim begs the question of what would happen to China's promises of autonomy for Hong Kong if it were once again thrown back into a period of xenophobia, or if Hong Kong were no longer a layer of golden eggs. What use today are promises made by the Shah of Iran, or Ferdinand Marcos?

Chinese officials, of course, dismiss this possibility, but anxiety in Hong Kong is deeply rooted in memories of the chaos and xenophobia of the past - and the certain knowledge that if this were to recur after Hong Kong has become Chinese sovereign territory, then Hong Kong would be an early casualty.

This leads to another uncomfortable truth for Chinese officials - that Hong Kong people find little comfort in Deng Xiaoping's carefully devised concept of "one country: two systems", instead seeking encouragement in signs that China's open door policy is leaning it in the direction of capitalism.

Insofar as Hong Kong hearts remain at ease, it is because people see emerging not "one country: two systems" but "one country: one system", with Hong Kong's capitalist system in the ascendant. One wonders whether it is outrageous arrogance or unflinching faith in the effectiveness of its economic system that prompts a community of 6m people to believe that a country of more than 1bn people will in time dance to the Hong economic tune.

Some will see China's investments in Hong Kong as a statement of faith in the future of the territory, while others regard them as part of a plot to infiltrate its industries. Some see the influx of mainland Chinese officials and the expansion of Peking's diplomatic presence as a valuable effort on China's part to educate its cadres on how Hong Kong works, while others fear it as a devious attempt to establish a parallel goverment.

For some, Sir David Wilson's recent visit to Peking, to discuss the findings of a summer-long survey of public opinion on political reform, was bootlicking by a Government fearful of making any move without first winning Peking's approval. But others say this was a sensible attempt to keep Chinese officials abreast of Hong Kong Government thinking, and to continue the process of political education that is essential if a smooth transition to Chinese sovereignty is to be possible in 1997.

At present, there seems to be little prospect of reconciling the two perceptions, which may always remain a matter of having faith or lacking it. This has not prevented fierce debate over political reform, and a conviction on the part of many that the Hong Kong Government has deliberately obfuscated issues so as to prevent a politically embarrassing call for direct elections to the legislative council next year.

The fact remains that for those with faith in China's goodwill, whether or not Hong Kong has direct elections is hardly critical, while for those who live in fear of the transfer of sovereignty, direct elections cannot protect them from the oppression they hope to keep at bay.

Officials like Lu Ping continue to offer sweeping assurance - that no officials will sit on the legislative council, that "not even one" official will be dispatched to Hong Kong in 1997, that the chief executive who will succeed the Colonial Governor will be appointed or elected from among Hong Kong people. "The legislature will be a real legislature, rather than the consultative body it is now," he says.

"China will never form a second centre of power - neither now, nor after 1997," he promises, in response to claims that Chinese officials are in the process of building up a "shadow" government. Such claims will almost certainly mount as the joint liaison group - vested with the task of ensuring a smooth transition - moves into a permanent home in Hong Kong in July next year. With it is likely to come a substantial bureaucracy from Peking that some will almost certainly see as a surrogate government.

It is often said that Peking would never renege on its commitments over Hong Kong because of the negative effect on its ambitions over Taiwan. But that may be a simplistic view. "Of course Hong Kong has something to do with the problem of Taiwan," says Lu Ping. "But we are considering the interests of Hong Kong first, and the fact is that if we can keep Hong Kong prosperous and stable, then it will play a more and more important role in the development of China."

The recent relaxation in relations between China and Taiwan has not altered this, since it appears to have more to do with Taiwan's domestic politics than with any breakthrough linked to China's united front efforts.

Peking has nevertheless not been slow to lay down welcome mats, and win what propaganda points it can as tens of thousands of Taiwanese make plans to visit the mainland for the first time in almost 40 years.

The thaw, which has also opened the door to direct trade for the first time, reflects Taipei's greater willingness to respond to democratic pressures in the country - a sign of growing political confidence at home and overseas - and increasing affluence, with more and more people wanting to travel overseas.

Fiercer tests of political strength are likely to come in 1989, when the Asian Development Bank holds its annual meeting in Peking for the first time, and in 1990, when Peking is host to the Asian Games.

As one foreign observer notes: "It may take 100 years, but from the mainland point of view, there is really no downside at the moment. There are no signs of any all-out effort to isolate Taiwan, but perhaps that is because the Chinese are very patient people."

The Bank of China will be part of Hong Kong's skyline

Foreign relations

US links are crucial despite the rhetoric

CHINA'S CAREFULLY constructed path towards improving its international relations and cultivating its image of a peaceful, neutral and non-interventionist world power has been littered with obstacles during the past year.

But while attention focuses on the boulders which have fallen across the main roads to Washington and Moscow, some smaller difficulties are finally being swept away.

The principal problem has been the outbreak of verbal hostilities between the US and China over Tibet, the Gulf War and trade protectionism.

In the longer run the growing pressure for protectionism within the US is likely to be the greatest of these obstacles for China - as for many other trading nations. The Sino-US textiles agreement expires at the end of this year and negotiations throughout 1987 on new quotas and categories have failed. Although the Chinese think they can reach a compromise with the Washington Administration they are not sure it would be acceptable to the increasingly protectionist US Congress.

Congress has also been at the heart of the difficulties over Tibet where China suppressed demonstrations in support of a return to independence under the rule of the Dalai Lama, who has lived in exile in India since China annexed his country.

In a wide-ranging interview with the Financial Times Mr Wu Xuequian, China's Foreign Minister, said: "The gross interference in China's internal affairs on the question of Tibet by members of the US Congress has already aroused strong indignation among the Chinese people."

Although he reserved his main complaints for Congress Mr Wu said the US Government had not only failed to do anything about this "interference" but had also tried to establish a link between the disturbances in Tibet in October and human rights in the region. "If the US makes no change on this it will affect the development of Sino-US relations," he warned.

However, behind the rhetoric, both China and the US are anxious not to destabilise their relationship. An example of the importance attached to the links with Washington is China's reaction to charges by the US that Chinese arms have been used in the Gulf and that at least one Chinese Silkworm missile has been fired against a US vessel in the region.

China vehemently denies supplying arms to the Gulf although the US is understood to have photographs showing Chinese missiles being loaded onto a Chinese ship and unloaded off the same identifiable ship in Iran.

But while resisting the US claims and rejecting complaints that Chinese arms have turned up in both the Philippines insurgency and the Sri Lankan conflict, Peking has decided that arms sales, whether direct or indirect, are proving too disruptive to its diplomatic goals. It is particularly concerned that the US has suspended the review of liberalisation of exports of high technology to China because of the Gulf incidents.

Mr Wu admitted that control of arms sales had been too lax. "We shall adopt stricter measures," he said, adding that China supported the UN Secretary-General's efforts to mediate and that if those efforts failed China would support any other measures agreed in the Security Council. "An arms embargo would present no difficulties for us."

Similarly, while China continues to maintain a robust line about the lack of progress on the three obstacles to improving relations with the Soviet Union, there has been considerable movement on some of the issues involved. The so-called three major obstacles are the Soviet-backed Vietnamese occupation of Kampuchea, the Soviet troop concentrations along the border with China and the Soviet occupation of Afghanistan.

There has been some progress on all three in the past 12 months and significantly Mr Wu concentrates his concern on the Kampuchea impasse.

"The fact is that there has been no substantive improvement. There has been some change in the wording and terminology used by the USSR in recent years on the Vietnamese occupation of Kampuchea, reflecting the fact that the Soviet Union is now prepared for a political settlement. But substantial differences remain. Vietnam must withdraw under international supervision and a government of national reconciliation must be established with Prince Norodom Sihanouk as its real, and not just symbolic, head," Mr Wu said.

There has been movement on some of the obstacles to improvement of relations with the Soviet Union

But for the first time since the Vietnamese occupation nine years ago Prince Sihanouk and Mr Hun Sen, Prime Minister of the Heng Samrin Government in Pnom Penh, have met each other. Shortly before their meeting in France, earlier this month, a vice foreign minister of Laos made the first visit to Peking for several years (seeing Mr Wu immediately after his meeting with the Financial Times). Laos has very close ties to Hanoi and the discussions are thought to have concentrated on Kampuchea.

Vietnam has indicated its willingness to withdraw in 1990 but has not said what sort of government would be left behind. China thinks 1990 is too late and is determined that a Soviet puppet regime such as that currently in office in Afghanistan should not be installed.

But there has been more movement in the last three months than in the last nine years and, significantly, Deng Xiaoping, China's paramount leader, recently repeated his offer to visit Mr Mikhail Gorbachev, the Soviet leader, anywhere in the Soviet Union once the obstacles are removed. Mr Gorbachev immediately responded by saying that any difficulties yet to be resolved should not prevent China and the Soviet Union establishing a dialogue "at the highest level." Mr Deng, who is 83, has noted that such a contact should occur in the next year or two because of his age.

The other two obstacles are smaller. Tension on the 7,500km-long Sino-Soviet border, the longest border in the world, has receded and the Soviets made a gesture by pulling some troops out of Mongolia, although only a few and these from the northern rather than border region. Afghanistan has turned into a bigger problem for Moscow than for Peking and Mr Gorbachev is probably more anxious even than Mr Deng that Soviet troops should be withdrawn. A token number has gone and negotiations are under way in Geneva to try to establish a timetable for full withdrawal and the trickier question of the composition of a new government.

Meanwhile relations with the Soviet Union on other fronts have improved significantly. Trade has increased sharply and the two countries have started to seal joint agreements covering areas adjacent to their common borders. For example, both countries have agreed to share the waters from the Argun and Amur rivers which constitute part of their common border in the far north. Both sides will benefit with flood prevention and hydro-electric schemes by 1992.

There has also been some progress recently in the long-running dispute between India and China over the border in Arunachal Pradesh in the remote Himalayan region, where both sides repeatedly accuse each other of making cross-border forays. In June Mr Liu Shuqing, China's vice foreign minister, who is often tipped to succeed Mr Wu if he changes jobs at next March's annual People's Congress, said the only way to lower tension was for India to withdraw its soldiers. But last month both sides were more conciliatory and said they were determined to find a "mutually acceptable solution." At the same time Mr Rajiv Gandhi, the Indian Prime Minister, said he wanted to renew and revitalise relations with China.

Mr Wu said an invitation had been issued for the Prime Minister of India to visit China when Mrs Indira Gandhi held that position. THe invitation stood although it had not been "re-issued" recently.

In spite of the difficulties, slow progress is being made towards China's objective of stable bilateral relations with the US, Soviet Union and India. Its objectives on Macau and Hong Kong are close to fruition and there has even been a slight thaw with Taiwan over allowing visits by relatives.

If gaffes like the Silkworm missile incidents can be avoided in future China will move towards its diplomatic dream: acceptance on the world stage as a "normal" peaceful member. Foreign strains will then centre on issues like trade protectionism, at the root of current troubles with both the US and Japan, but these are difficulties which affect all trading nations and are therefore regarded by the Chinese as "painful but normal."

Robin Pauley

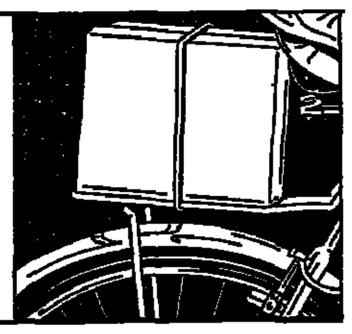
The economy is growing but may be overheating, says **Robin Pauley**

Questions about reform programme

AFTER ALMOST a decade of some of the most far-reaching economic reforms ever attempted in China, citizens of Peking and a growing number of other cities are this month right back where they started: pork and sugar rationing have been introduced and hordes of shoppers have been out panic-buying.

So for the third time this year there are serious question marks over the reform programme and what it is achieving.

> In the rush to devolve power, too much authority is now missing from the central banking and taxation systems



First, in the spring, conservatives returned to the fore in the wake of student riots and tried to slow, if not reverse, the move towards free markets, arguing that bourgeois liberalism, including the pursuit of capitalism, was going too far and certainly too fast.

Then, when it became clear that inflation was starting to soar again as prices of some commodities spiralled, the Government, fearing the social and political consequences of inflation, particularly in the price of food, clamped on a price freeze.

The so-called economic reformers or pragmatists managed to fend off the challenge of the conservatives, consolidating their position triumphantly at last month's Party Congress. But they now find themselves in an extremely tricky corner.

There can be no meaningful restructuring of the economy without price reform, yet many prices seem to remain frozen indefinitely. The market reforms which have advanced furthest have been in the agricultural sector, yet the rising cost of raising pigs and growing corn and rice for lower profits has encouraged farmers to switch to cash crops such as vegetables which can be easily sold on the new free markets.

Rationing the country's most popular meat to 1 kilogram per Peking resident per month revives memories of the bad old days of shortages, food queues and coupons, when many people were without a balanced diet.

So there is likely to be strong pressure for the return of higher subsidies to make pig breeding more worthwhile again and this could spread to other agricultural products for which pricing has become more market oriented - particularly corn as China has had to import substantial quantities from the US this year compared with *none* at all last year.

Yet although the economy appears to be in considerable crisis and is overheating again in some sectors, notably construction, the overall picture is difficult to sort out as some fundamentals are performing well this year.

The economy grew by about 10 per cent last year and the figure for 1987 is widely expected to be about 8 or 9 per cent. Foreign reserves are climbing towards $14bn from last year's low of about $10bn.

Exports are sharply up: in the first nine months of this year, the value of exports was $26.6bn, a rise of 24 per cent over the same period last year. The value of imports on the other hand was $29.2bn in the first three-quarters of 1987, a fall of 4 per cent over the same period last year.

The foreign trade deficit of $2.7bn for the period compares with $9bn in the first nine months of last year. The trend appears to have continued during the last quarter and excluding imports that do not have to be paid for in precious foreign exchange China appears to be running a small surplus in 1987, which is a curious position for a major developing country trying to restructure its economy.

But the problems are greater than the strengths. Some are the result of the inevitable lumpiness bound to occur when a huge backward country of more than 1bn people tries to restructure a moribund centrally planned economy into a modernised market economy.

However, that does not make fear of the political consequences any easier to handle. Inflation is a key example. Officially, consumer prices are rising at around 6 to 8 per cent this year but as the figure for the first half alone was 6.3 per cent most observers work on the assumption that the year-on-year rise will be in double figures. Key food and consumer durable prices seem set to rise about 12 to 13 per cent.

"We are quite backward at gathering statistics in China and the official inflation calculation is among the worst. It is always underestimated," says Mr Zhu Xing Qing, deputy editor of the influential World Economic Herald in Shanghai.

Every time the market is allowed some room to function prices take off and are quickly clamped. Price rises are needed, however, in many sectors including food, energy and housing costs if the distortions and absurdly low pricing are to be corrected towards a truer market level.

In some respects inflation is actually desirable as it is one way to introduce the necessary real wage *cuts* which are needed in many industrial sectors where labour costs are rising dangerously through the payment of bonuses, irrespective of productivity or profitability which are often not improving at all.

China's leaders are all too well aware, however, that it was ultimately the hyperinflation of the 1930s which was the key factor in the fall of the Kuomintang rulers. The prospect of a similar fate probably acts as the speediest brake of all.

Nor does the public reaction to food price rises in Eastern Europe go unnoticed. Price freezes seem to be as endemic to the new economic era as to the old - most industrial prices have been frozen one way or another for 80 per cent of the last quarter *of a century.*

Song Tingming: new range of initiatives

Another major transitional difficulty is the number of lossmaking, state-owned enterprises which have to be subsidised, draining much-needed resources and enlarging the budget deficit. The proportion of lossmakers is growing - from around 13 per cent of the total two years ago to 20 per cent now because raw material prices are rising, while wages are going up much faster than productivity as retail prices are frozen.

The Chinese have realised that for the next stage of reform to gain momentum they need to find ways to introduce a rational pricing system and managerial autonomy to decide wage levels, what to produce, how to utilise profits and who to hire and fire.

Other essentials are some form of bankruptcy law, which reinforces the results of risk failure, more labour mobility, implying more freedom for workers to choose their work, a realistic exchange rate, enabling foreign exchange certificates to be abolished and an end to the dual pricing system, partly responsible for the recent rapid rise in corruption and black markets.

Most importantly, two serious errors appear to have been made during the reforms so far. In the rush to devolve power to the provinces and reduce central control, too much authority is now missing from the central banking and taxation systems.

The People's Bank of China – the central bank – having delegated too much power to provincial and local banks - is now without enough monetary levers in Peking. Credit and money supply have soared and one analyst says China's money printing presses have been "running red-hot, day and night, for months."

The Bank is to try to rectify the mistake by taking back some powers early next year to put ceilings on credits and loans and bring the money supply to a level 30 per cent below this year's. Western bankers are sceptical, believing that the banking system is not developed enough to achieve these aims so quickly.

A side-result of the error is likely to be that Madame Chen Muhua, the central bank governor and China's most powerful woman, is likely to be replaced shortly, having failed to retain her place as an alternate Politbureau member at last month's Party Congress.

The other error has been to give away so many tax-raising powers that the centre is starved *of cash. The* central government receives just over a quarter of total taxation revenues, which puts it firmly at the bottom of the world league.

It collects no taxes at all from two provinces. Belatedly, consideration is being given to the introduction of a new federal tax next year but no decision has yet been taken and whatever form it takes it is likely to be deeply unpopular and, initially, inefficiently collected as there is no fully developed inland revenue system.

This array of problems does *not mean that China is giving up* on its economic reforms and indeed a new range of initiatives from levies on unnecessary construction projects to corporation tax and the introduction of *estate agents is due next* year, according to Mr Song Tingming, of the Commission for Restructuring the Economy.

The problems *do* mean that the restructuring effort is going to be much longer and more difficult than the Chinese imagined even as recently as last year.

But it is clear from recent interviews and from the Party Congress that they mean to stick at it and on most fronts – except price reform – they are edging forward in the direction in which they want to go.

The Chinese refer to the transition as being the primary stage of socialism rather than the true socialism to which they aspire. This euphemism gives them, as they openly admit, an excuse to try out anything and everything on a "suck it and see" basis. But they have lengthened their horizons and refer to this stage as taking until the middle of the next century.

Mr Zhu says: "The problem *here is that it is like having* a baby. You cannot do it naturally without pain, it is part of the process. But every time we get any pain here we stop it because we do not want to hurt anyone.

But he adds a touch more optimistically: "On the other hand who would have predicted when the reforms began in 1978 that by 1988 we would have got as far as we have in spite of the setbacks?"

Virtually all commentators agree that the answer to that is: "Nobody."

Banking and finance

Radical changes to hold inflation

"I'M A professional in the financial sector, not in personnel," says Mr Ren Junyin, deputy secretary-general of the People's Bank of China, when asked if Madam Chen Muhua, president of the People's Bank, will be *leaving her job. Madam Chen,* in her late 60s, was a political appointee.

"That question is for the State Council," he adds drily.

Madam Chen may prove a *high-level victim of China's latest* round of price rises. Her position illustrates the highly political nature of China's banking reforms and Peking's sensitivity to inflation.

Madam Chen lost her post as a Politbureau member at the 13th Party Congress last month, and now seems likely to fall further. China's central bank is continuing radical changes in the *banking system in a fierce effort* to keep inflation under some kind of control and raise adequate funds for key investment projects.

Ren Junyin: rationalising the surpluses

Official Chinese estimates for *inflation are in single figures,* but no one believes them. According to the People's Bank, the money supply has grown by about 25 per cent during the past three years, but all the statistics are *thought to be inaccurate.*

Since 1978 a huge structural change has been under way in China's money system. Before then, the rural areas where 80 per cent of the people live were barely monetarised *since* the peasants mostly supplied their own needs.

"Now 60 to 70 per cent of the grain grown is sold on the market," Mr Ren says. "The countryside *absorbs 70* per cent of *the* money supply now," he adds, indicating a remarkable change.

At the same time, the price reforms, delayed though many are, have boosted currency in circulation. *Prices* in *China* of key commodities like coal and steel were fixed in the 1950s and bear little relation now to real costs.

The Peking Government has not had the nerve to allow all prices to float, but a portion of almost all output is now sold on a semi-free market.

Wages and bonuses have gone up without a corresponding rise in productivity. This year it is estimated that bonuses rose by 45 per cent in the first half and the rate may be even higher in the second. Wages are expected to rise faster, *too.*

Decentralisation of decision-making has also had a big effect. *In effect, the People's Bank has* lost control of the macro-economy. Local enterprises now have the *right* to keep *money stocks* which the Bank and the Ministry of Finance cannot get their *hands on.*

A further problem is the growth of credit outside the budget. The state controls about Yuan 180bn in budget spending, but the independent enterprises raise *about the same amount* on their own. With a total of about Yuan 150bn investment altogether in one year, Mr Ren points out, the economy soon becomes overheated. This total is *already way above target.*

Still more ironic, China cannot raise investment for the key projects such as railways which must be built before the country can really reach take-off.

Consumer spending remains excessive this year because of the power delegated to managers to decide on profits, wages and bonuses. The total volume of retail sales will rise by an estimated 16 per cent.

It is *now* crucial for China to try harder to control the money supply. In the coming year, the Bank will allow a 15 per cent growth, while the national economy is planned to grow at 8-10 per cent. The gap should be filled by expected price rises.

"We will also focus on rationalising the *surpluses* and *shortfalls* between the various enterprises," Mr Ren says. "The important thing is to provide enough funds for plant making key products, and give less to those which have unmarketable inventories." For example, the number of unsold, low-quality bicycles in stock is said to be 8m.

Controlling credit next year is crucial. The Bank plans lending quotas, higher interest rates and *larger reserve* requirement ratios for the retail banks. The People's Bank has already increased this by 2 per cent, to 12 *per cent* last month.

There will be other steps. One *will be to try to see that* enterprises are creditworthy. Few bank staff are trained yet to assess the viability of industrial or commercial projects, and in any case most find it hard to stand up *to tough officials* bent on getting their money.

Another step will be to expand China's *money* markets. "Our problem with structural adjustment is mainly a problem with *the efficiency of investment,"* Mr Ren says. "We can't solve this by administrative means, it must be done by market mechanisms.

"There are now 27 cities, such as Shenyang and Wuhan, which have already *opened financial* markets," he says. In fact, these simply sell bonds over the counter, but next year Mr Ren indicated secondary markets would be set up. "And we'll allow enterprises to get involved directly. They won't need to depend on the People's Bank or the Ministry of Finance."

Local governments will be asked to take on major projects. They will be allowed to issue bonds in the market specifically for these. "And we'd like to channel the money which at present goes to light or service industries into them," Mr Ren reveals.

Plans for next year include selling treasury bonds by the People's Bank to control inflation. A new law allowing the bank to do this is on the agenda. But the speed with which these quite controversial reforms can be implemented depends on how powerful reformist politicians are. The dust needs to settle more after last *month*'s Party Congress before any *predictions* would be wise.

Colina MacDougall

Steven Butler assesses the trade scene

Import cuts curb the deficit

CHINA-WATCHERS will surely remember 1987 as the year when the country's trade officials stomped their feet very hard and finally got results.

The trade deficit, which hit $12bn last year according to customs statistics, came spiralling down as the Government squeezed hard to choke off the flow of imported automobiles, televisions, refrigerators and other consumer durables. Also on the hit list were electrical goods and machinery that are manufactured in China in quantity, but that previously were hard to obtain because of China's poor system of distribution.

Japanese exporters to China took the hardest knocks, with the bilateral Japan-China trade deficit alone plunging to a mere $600m by the end of October, compared with about $7.5bn for the whole of 1986. Economists in Peking said they expected the trend would continue next year, raising the possibility that China would move to a rough balance in trade by the end of 1987, and move into surplus in 1988.

This, in turn, raises the possibilities of some relaxation of stiff foreign exchange controls. "The foreign trade sector is now the most centralised part of the economy," says a Peking-based diplomat commenting on the success of Government efforts to take back powers that it previously passed to local officials.

Any move to a balance of trade surplus, however, is seen as strictly temporary in view of China's need for imported capital equipment and technology to support its economic development efforts.

Economists say that the abrupt, and fairly extreme, short-term reversal of China's trade position reflects the blunt instruments that the Government uses to control trade flows. Blunt or not, Mr Shen Jueren, assistant minister at the Ministry of Foreign Economic Relations and Trade, says the Government is happy that precious foreign exchange will no longer be spent to the same extend on consumables; and this could augur well for high technology and capital equipment producers throughout the world who are aiming to sell to the China market.

The $29.22bn import bill for the first nine months of the year, down 3.8 per cent on the previous year, compares with a robust 23.9 per cent rise in the value of exports to $26.50bn. Textiles, garments, yarns and carpets moved well ahead. Coal exports increased by 32.7 per cent to 8.9m tons, although crude oil exports fell by 8.7 per cent to 18.8m tons.

Grain exports fell off by a quarter to 5.6m tons, with grain imports soaring by 74 per cent to 11.29m tons. China has traditionally bought and sold grain in international markets to take advantage of price differentials, and to sell rice in exchange for wheat. It moved from a net grain export to a net import position in 1985 and is expected to be a net importer this year.

In view of the difficulties facing China's grain production, traders expect China to be a major buyer for the foreseeable future. The US Feed Grain Council, which promotes the development of commercial livestock production, says China is now importing feed grains at a rate of about 3m tons a year. This is expected conservatively to rise to over 5m tons in coming years, and could go up even more sharply should the Chinese Government decide to improve diets by increasing the availability of meat.

Also rising sharply on the import side this year were machine tools, TV picture tubes, vegetable oil, sugar and rubber. Automobile imports fell by 45.8 per cent to 53,600 vehicles. If there is any clear beneficiary of recent trade trends in China, it is Hong Kong.

Hong Kong has now dispelled for good fears that its role as a clearing house for Chinese trade would fall as China opened to the world.

"Everything is working to make Hong Kong bigger as a distribution centre for Chinese goods," says Mr Francis Lo, deputy executive director of the Hong Kong TDC. Some 40 per cent of China's exports now enter Hong Kong, with nearly three-quarters of that re-exported. Hong Kong's total imports from China rose 47 per cent in the first nine months of the year, while re-exports increased by 69 per cent, according to Hong Kong Government statistics.

Hong Kong's role as a broker for goods entering China has similarly shot ahead. Re-exports to China rose by 50 per cent to $5.34bn, while domestic exports increased by 62 per cent to $2.54bn. The advantages of trading through Hong Kong lie in the colony's vastly superior port facilities, soon to include the world's largest container handling capacity, and a superior international communications capability.

The colony's businessmen have the experience of dealing in international markets that cannot be matched in China itself. Other than Hong Kong, China's direct bilateral trade with all other major trading partners, according to Chinese customs statistics, declined, by 8.3 per cent in the case of Japan, 8 per cent for the US, and 5.4 per cent for the EC.

The figures, however, are deceptive since they do not take into account indirect trade through Hong Kong that would eventually arrive at these destinations.

The Chinese have shown greater sophistication in taking advantage of the structure of US trade restrictions, particularly in textiles and clothing, to improve their export performance. Since US quota import restrictions are measured by the piece, China has concentrated on producing a higher value-added garment. The Chinese, however, had filled many of their US textile quota limits early in the year, and the improvement in their trade position with the US was not expected to continue as strongly to the end of the 1987.

Both the US and China were preparing for what they hoped would be a final December negotiating session to hammer out a new textile trade agreement, which would take effect at the start of the new year. The Chinese have accepted the principle that the rate of growth in textile exports to the US will have to be curtailed, and that more categories of goods will fall under the rubric of the agreement.

Balance of Payments

($ millions)	1982	1983	1984	1985	1986
Merchandise exports f.o.b.	21,125	20,707	23,905	25,108	25,756
Merchandise imports f.o.b.	16,876	18,717	23,891	38,231	34,896
Trade balance	**4,249**	**1,990**	**14**	**−13,123**	**−9,140**
Services, credits	3,604	4,028	4,819	4,532	4,927
Services, debits	2,665	2,289	3,245	3,069	3,200
Services balance	**939**	**1,739**	**1,574**	**1,463**	**1,727**
Private net transfers	530	436	305	171	255
Official net transfers	−44	75	137	72	124
Unrequited transfers balance	**486**	**511**	**442**	**243**	**379**
Current Account	5,674	4,240	2,030	−11,417	−7,034
Short-term capital inflows	244	59	223	11,346	9,343
Short-term capital outflows	295	334	1,113	9,075	11,638
Short-term capital balance	**−51**	**−275**	**−890**	**2,271**	**−2,295**
Long-term capital inflows	3,312	2,702	4,128	9,531	11,393
Long-term capital outflows	2,932	2,653	4,241	2,830	3,155
Long-term capital balance	**389**	**49**	**−113**	**6,701**	**8,238**
Capital Account	338	−226	−1,003	8,972	5,943
Errors and omissions	279	−366	−932	92	−184
Changes in Reserves*	−6,291	−3,648	−95	2,353	1,275

*Negative value represents reserve increase.
Source: International Business, Peking; August 29, 1987 issue.

Foreign investment

Currency the main problem

FOREIGN DIRECT investment in China is on the rise once again. The turnaround is hardly dramatic, but even a slight improvement may come as a surprise to anyone who has followed the long trail of woe that has greeted many of the big Western investors hoping to capitalise on China's huge and growing domestic market.

Even Chinese officials admit that only a third of joint venture enterprises can be considered to be in reasonably good financial health – another third are said to be in serious trouble, losing money and unable to balance foreign exchange requirements. In response to this difficult situation, the China International Trust and Investment Corporation (Citic) last month announced formation of a troubleshooting body to sort out problems, or even close down joint ventures in trouble.

By the end of September, according to the Ministry of Foreign Economic Relations and Trade (Mofert), 1,165 foreign investment projects had been approved, an increase of 28 per cent, with realised investment up 30 per cent to $940m. On an approval basis, the year-on-year figure was unchanged, at $2.66bn.

Mr Shen Jueren, Vice Minister at Mofert, also said that the quality of investment had improved, with more coming in high technology and export areas that the Government has encouraged. Investments in service industries, particularly hotel construction, had fallen off.

"I think that since last year our investment climate has greatly improved," says Mr Shen. "But I can't say the investment climate is the best in the world."

The change is largely confirmed by the foreign community in Peking. "On balance, the situation has improved," says a Peking-based diplomat.

Personal taxes on foreigners have been slashed by 50 per cent in the past year

The main sticking point for most foreign investors in China has been the difficulty of earning foreign currency, both to pay for imported parts and materials and to allow for profit remittance. In principle, China demands that all joint ventures earn their own foreign exchange through exports.

The Chinese do not accept the logic that has governed export development strategies in virtually the entire world, namely that exports tend to grow on the back of a strong domestic market, particularly for more sophisticated products. At a minimum, transportation and other infrastructural support ought to be sufficient to justify an export-oriented industry, as in Singapore for example, but China obviously does not have these attractions.

The foreign technology that China would like to attract does not necessarily come in industries where China can justify seeking to build volume exports.

None the less, China has moved a little over the past year to ease the foreign exchange shortages affecting many enterprises that are otherwise healthy. One way this is done is to allow joint ventures with excess foreign currency, such as hotels catering to foreign tourists, to exchange foreign currency for Chinese yuan, which they need to pay staff and for other operations. This allows companies making a profit in the domestic market to exchange this at a discount for foreign currency, on a limited scale.

A second method is to allow joint ventures to participate in an import substitution scheme when a shortage of foreign exchange is seen as a temporary problem during a start-up period. In these cases the company may sell products domestically in China for foreign exchange that would otherwise be used to import a similar item. This has helped bring foreign exchange to the once deeply-troubled Peking Jeep plant. Shanghai Foxburo and China Schindler are also taking advantage of the scheme.

In addition, personal taxes on foreigners were slashed by 50 per cent over the past year.

These changes have eased some of the pressures on joint ventures but have not solved the deep-seated problems. For one, a foreign investor cannot yet get prior guarantees of being able to participate in the import substitution scheme before signing on the dotted line, and not all enterprises have been able to take advantage of the scheme.

Investors still complain of a general lack of transparency in foreign investment rules and of the difficulty of ever knowing precisely what sorts of approval they really need before a project can go forward.

Costs of services can still be outrageous. "There is still a 'soak the foreigner' mentality," says a diplomat.

Clearly, the bloom has come off the foreign investment sector, despite the increases this year in investment totals. But it is also plain that while foreign investors and the Chinese authorities often do not see eye-to-eye, both sides are approaching investment difficulties with increasing realism.

Steven Butler

Borrowing

New instruments employed

CHINA'S GROWING prominence as a borrower in international markets took a big step forward in June when an agreement was signed with the British Government to settle outstanding property claims. This opened the door to China's fund-raising activities in London, which kicked off in October with the issue of $200m worth of five-year bonds by the Bank of China.

The market was again tapped in early December by the China International Trust and Investment Corporation (Citic), which borrowed in the Euroyen market for a total of Y15bn.

China's total foreign borrowings are now believed to be in the range of $30bn, and this is slated to rise to $40bn under the Seventh Five-Year Plan, which ends in 1990.

Mr Shen Jueren, assistant minister at the Ministry of Ministry of Foreign Economic Relations and Trade, says that China is very comfortable with this level of foreign borrowing, and the community of international bankers generally concurs.

China still aims to fill as much of its borrowing needs as possible through concessional loans and these may account roughly for half the total. But it is also showing increasing sophistication in a range of newer-type commercial instruments.

Citic has just arranged a $200m revolving facility in Hong Kong that will allow it to issue Euronotes as needed, that will in turn be auctioned by the banks involved and allow Citic to obtain the keenest rates.

China has now raised over $3bn in foreign bond markets. These have been heavily concentrated in yen-denominated instruments, which comprise some two-thirds of the total. While China has been able to obtain fine rates in Tokyo, it has obviously lost heavily on foreign exchange fluctuations.

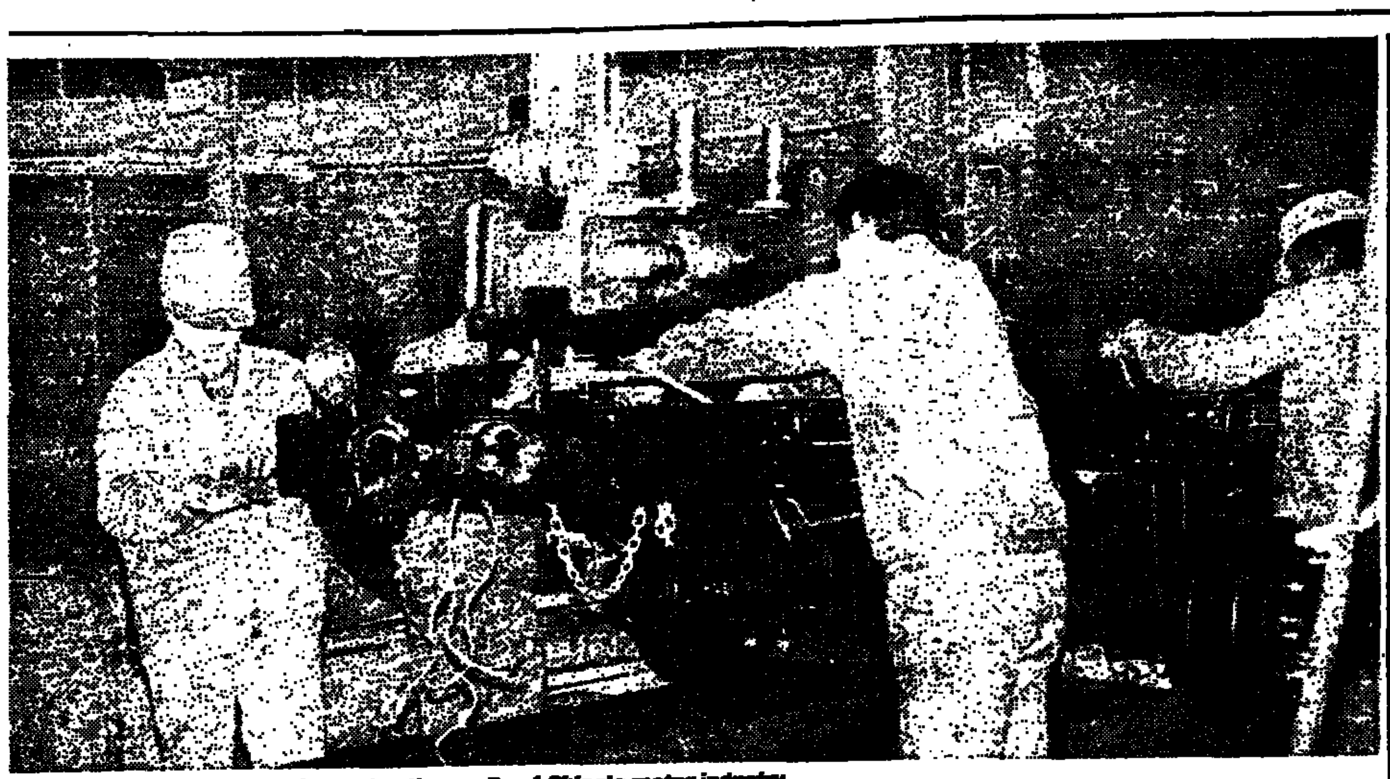
US dollar bonds account for only about 25 per cent of the total, although some 70 per cent of China's foreign exchange transactions are in dollars.

The next frontier for China's fund-raising would be the US market. But this will have to await settlement of legal wrangles arising from debts incurred by the previous Chinese Government that the current Government does not honour.

Although most observers think that China's foreign debt is fully manageable, there is still a bit of haze over just how big it is. All foreign loans must now be registered with the State Administration of Foreign Exchange Control, but this agency has a weak administrative structure and is not believed to be yet able to produce reliable statistics.

For this, it is thought, China still turns to IMF data.

Steven Butler



Changchun's No 1 automobile works, the cradle of China's motor industry

Changchun automobile factory

A puppy, let off the leash

LI ZHIGUO, who heads China's famous No 1 Automobile Works in Changchun, in the country's North-East, may have white hair and 14 years behind him as the factory's boss, but in the wake of current industrial reform, he has the air of a puppy just let off its leash.

"Before 1978, we just had no authority. If we wanted to buy even ice-cream, we had to make an application to the state," he recalls. "It was easy to be a director in those early years. No matter whether we made good lorries or bad lorries, they could all be sold."

The new responsibilities that have begun to fall on him as Peking has first separated party control from factory management, and more recently begun to devolve decision-making power over capital investment, production planning, pricing and sales policy, appear to have been shouldered with relief rather than alarm.

"With greater competition, we have to pay more attention to quality, but we can save our own money to fund expansion of our production," he comments. "If we make more money, we can take greater care of the welfare of our staff, whereas before 1978 everything we earned was turned over to the state."

Such radical change at the Changchun works is more than usually symbolic because of the complex's unique place in China's post-liberation history. This was China's first automobile factory, completed in 1956. It was then seen by Mao Zedong, and the Chinese people as a whole, as a potent symbol of the country's new-found pride after more than a century of colonisation and crippling civil war.

"Our factory ended the history that said China cannot make an automobile," says Li Zhiguo. The factory's main product, a four-tonne lorry, was inevitably called the "Jiefang," or liberation truck. Since 1956, more than 1.2m have been made, and half of these are still lumbering along China's roads.

However, over the 30 years of political upheaval, the Jiefang that was once a symbol of China's technological emergence has become a dinosaur, demonstrating the shortcomings of an inflexible command economy.

Attempts to break new ground were frustrated continuously during the 1960s for entirely political reasons. Instead of being allowed to develop a new truck, the No 1 automobile works was forced to help to set up a new works - the No 2 works - in Wuhan in the middle reaches of the Yangtze River. It lost 5,000 skilled workers, and all of the momentum to upgrade its own technology.

Only since 1978 has the changed political mood allowed the likes of Li Zhiguo to resurrect plans to bring the factory's output out of the 1950s.

On January 1 this year, the factory began production of a new Jiefang truck, at last abandoning the original model to the industrial history museum where it now belongs. More than 60,000 trucks will be turned out this year, and about 88,000 next year.

The factory has also just won approval to manufacture a new saloon car, which will resemble a Toyota Crown, and will be powered by a Chrysler engine. This new car - the Hongqi, or Red Flag - will also replace one of China's most revered of industrial brontosauruses - the original Hongqi limousine, which today is the prerogative of China's topmost leaders and most important foreign visitors.

When production of the new car begins in 1990 - providing domestic competition at last for the Santana being produced in Shanghai in a joint venture led by Volkswagen of West Germany - just 30,000 will be turned out. But this is expected to rise to 150,000 by 1995, and 300,000 by the year 2000.

At the 15,000-strong factory, new production lines are being installed, with technology being imported from dozens of countries worldwide for endurance testing, chassis painting, brake and clutch systems and many other components.

Mr Li now has the power to reward improved productivity with substantial bonuses, to reform management and production methods, and to sell a substantial proportion of output outside the factory's state quota. Profits earned from these sales are to be used for new capital investment.

The plant has its own export department, and can retain foreign currency earned through the sale of lorries, or parts. Already, it has won orders from the World Bank for contracts involving 513 trucks.

"We have to improve quality and cut costs - and the money we save we can use for future production. Different salaries will be paid for different jobs, and salaries will rise as output increases," says Mr Li.

After so many years of being shackled by political imperatives dictated by Peking, these developments suggest heady change for China's massive state industries - "liberation" indeed, even if two decades delayed.

David Dodwell

Industry

A labyrinth of obstacles to market forces

CHINA MADE 70m watches last year - a large proportion in factories in Shanghai, Tianjin and Dandong. Today, 35m of them are still in stock, and are likely to stay that way. The factories continue to pour out watches at the same pace as a year ago.

Many of China's factories manufacture for the rubbish heap. Out of a total of 40m bicycles to be made this year, only 30m will be bought - though there are long waiting lists for quality brands like the "flying pigeon".

The manager of a factory in Wuxi in Jiangsu that made shirts for export had no idea of the export price for his shirts, no idea of how such a price would compare with the price of a similar shirt made in a factory in Korea or Taiwan, no idea of where they were sold, or of their reputation for style or quality.

He is typical of all small-to-medium exporting companies in China that are asked by an import-export corporation to supply a particular number of products by a certain date, and are paid in local currency for the work. Whether the goods are being sold at a loss, or whether the factory is missing out on a share of substantial profits in foreign exchange is an issue that passes him by.

Ask a factory manager what is going to happen to a storeyard full to bursting with rusting coiled steel, and he is likely to shrug phlegmatically. He is paid a guaranteed price for his output, and what the state does with the steel is not his concern.

Such an attitude is not universal in China, but it is endemic enough - particularly in the dominant state sector - to have attracted anxious government attention. Reforms have begun on an experimental basis that could go to the root of the problem. But at the same time they will create a revolutionary change that China's industry has not seen in 30 years.

"We would like to use market forces to regulate production and products," says Hu Zongyuan, a director in Peking's light industry ministry. "The problem is: the market is so big and production so limited that most products can be sold even when the quality is not good. If they can't be sold in the cities, where buyers are becoming more discriminating, then they can still be sold in the countryside."

While China's leaders grasped the nettle of rural agricultural reform almost a decade ago, with a dramatic impact on the productivity of the country's farming sector and on the living standards of China's 800m rural population, they have baulked every time urban industrial reform has been discussed.

The labyrinth of obstacles linked with reforming the state planning process - ranging from the qualms of party ideologues and reluctance among political and party leaders in factories to loosen their hold on power, to the practical problems of removing subsidies, creating labour mobility, rewarding effort and efficiency, or introducing marketing or product design capability in the factory - have daunted even the most convinced advocates of change.

Shanghai's watch-making factory won approval just a month ago from the Light Industry Ministry to reduce its prices - in spite of fierce resistance from Tianjin and Dandong, where managers insisted that lower factory-gate prices would make them unable to pay taxes and profits to the state.

A factory in Peking that used to make "swallow" brand bicycles has been closed, and its workers transferred to a nearby food processing plant.

Hu Zongyuan is emphatic that companies that continue to produce unsellable goods will have licences withdrawn and their supply of raw materials cut off. To drive its point home, the ministry is mounting an unprecedented exhibition in Peking this month of examples of Chinese industry's shoddiest output.

The implications of such moves are immense, going straight to the heart of Communist China's most cherished political commitments - for example, the supremacy of state economic planning, the guarantee of lifetime employment and egalitarianism.

Nevertheless, policy planners in Peking appear increasingly ready to acknowledge that radical measures are needed if the problems that dog industry - shortages of raw materials and energy, poor quality production, immense wastage of resources - are to be resolved. As a first step in reducing state control, "guidance planning" has replaced "mandatory planning" from the centre.

Officials in Peking and factory managers alike have begun to accept that price distortions, limited competition, the absence of an effective labour market and poor financial discipline are among the most serious obstacles to improvement.

In some areas, such as the Pearl River delta around Hong Kong, and in the Yangtze delta hinterland to Shanghai, the impetus provided by household and collective enterprise, much of it funded from the profits of agrarian reform, has begun to spawn thousands of dynamic small industries.

Household enterprise in the "Suwuchang" area which comprises Suzhou, Wuxi and Changzhou in Jiangsu, now accounts for 70 per cent of industrial output. These small factories pay full market prices for their inputs, and are fully accountable for any losses or profits.

However, the buoyancy of this sector is unlikely to be sustained unless the problems of China's giant state industries, concentrated in the north-eastern provinces of Liaoning, Jilin and Heilongjiang, are resolved. For it is these factories that ultimately supply the small household enterprises with their raw materials.

The recent emergence of radical economic experiments in the north-east has therefore aroused hope that core problems are at last about to be tackled.

A widely publicised bankruptcy in Shenyang, Liaoning's capital, has given warning that lifetime employment is no longer a sacred birthright - though the possibility of a rush of bankruptcies has been discounted by most foreign observers. Chinese officials have had great difficulty in dealing with the implications of redundancy, preferring two more moderate alternatives for troubled companies:

■ The contracted responsibility system, under which factory workers negotiate a contract with the Government, defining targets for profit, tax, and growth projections, and are then left to bear the brunt of any additional losses, or to reap direct benefits from higher-than-expected profits.

■ "Horizontal association" with bigger, profitable enterprises. This obliges the "parent" company to allot some of its production to the ailing company, to retrain its workers where necessary, to seek efficiencies, and at the same time to accept responsibility for the welfare of the adopted workers.

Even healthy companies are being encouraged to develop "horizontal association" with other companies in an effort to lift production efficiency. In Liaoning alone, almost 10,000 factories are now linked horizontally, according to Zhu Jiazhen, the province's vice-governor.

Experiments in leasing small enterprises, in using bonds and shares to finance capital investment (long neglected because until recently most state factories remitted almost all of their surplus earnings to the Government in the form of tax or profit), and in establishing "talent centres" to act as embryonic employment exchanges, have also begun to spread to other parts of the country.

Foreign economists in Peking say officials have begun to address issues considered heretical only two years ago – like measures to separate the state as owner of a factory (by virtue of which it receives profits) from the state as regulator (by virtue of which it is paid taxes), and the attractions of joint stock companies in providing public ownership but of a diffuse and indirect kind that gives managers more independence while ensuring answerability.

They praise the idea of "contracted responsibility", which helps to define Government roles more clearly, gives managers more authority, and provides incentives for greater efficiency, but warn that the system could flounder if misapplied.

They say taxes, input prices and interest rates should not be open for negotiation as part of individual contracts, since these should apply equally to all companies if they are not to distort the forces of open competition.

They also fear that frequent renegotiation of contracts could undermine their effectiveness, just as a failure to set target dates for a return to profit could lead to contracts being used as instruments to keep alive inefficient and obsolete companies.

Even more controversial are efforts to persuade officials to look afresh at the welfare roles of factories.

It is understood that World Bank staff in Peking have been arguing that a factory's manufacturing role should be hived off from its welfare function - which would alleviate the problems of many factories that now pay salaries to as many retired workers as existing workers.

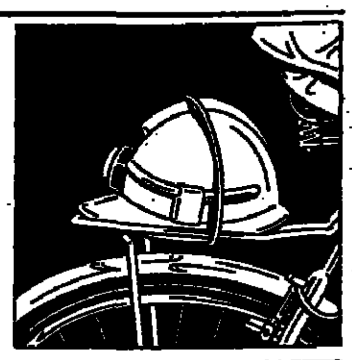
They say such responsibilities should be taken on by the state directly. This would enable factory managers to focus attention on production and would improve labour mobility. Such ideas have not yet won a response from Government officials, but they have not been dismissed out of hand – which they would have been two years ago.

David Dodwell

Despite economic reforms, formidable problems remain

Steelworks taste freedom

Here, and on the next page, Max Wilkinson looks at the country's resources available to assist development



MR LIU HUAZHONG, president of China's largest steelworks, at Anshan, was looking remarkably pleased with himself just after his return from the 13th Party Congress in Peking last month.

The message he brought back to his collagues at the sprawling complex in Liaoning province was good: the reforms go on. Anshan will be allowed to retain a significant part of its profits and manage its own business as it thinks best.

For Anshan, which dates back to 1918 when it was built by the Japanese during their occupation of Northern China, the economic liberalisation which Liaoning has pioneered has already yielded important results. "In the past our only care was to fulfil the quotas for the state and not care about who will use the steel and what is the quality," says Mr Liu. "But now, when we have fulfilled the task given to us by the state, we can look towards the market."

This new freedom has given Anshan and the other 14 large steelworks with annual production of more than 1m tonnes a big incentive to speed up the commissioning of new plant and to raise efficiency.

As the Ministry of Metallurgical Industry, which controls the major state works concedes, prices in the open market for the steel mills' "surplus" above their quota production can be three times the official price and sometimes more. Although the state steel industry expects to pay Yuan 14.5bn ($4bn) in profits and taxes to the state this year, some 30 per cent of profits were used to pay bonuses to workers to encourage productivity. However a significant amount was used for new capital development, which the state enterprises are being encouraged to fund out of retained profits and borrowings.

Many of the older steelworks like Anshan have an enormous need to bring in technology from abroad, to increase capacity, and even more importantly to raise quality, which is still low in many parts of the industry. To do this, the larger complexes, including Anshan, Wuhan Iron and Steel in Hubei, Meishan Iron and Steel in Nanjing and Laiwu Iron and Steel in Shandong have all been permitted to raise foreign loans.

Since all of the steel is desperately needed in the domestic market, the foreign loans will have to paid for out of the foreign exchange earnings of the customers. However, the authorities in Peking now appear to have conceded, in principle at least, that domestic production which prevents steel imports from rising above the present level of 15m tonnes a year is as good for the country's external balance as direct exports would be.

This policy appears to complete the shift of emphasis away from building large new steelworks with foreign technology like that at Baoshan, near Shanghai, which is scheduled to produce 3.12m tonnes of raw steel annually after the completion of the second stage of construction in three years' time. The new policy is to build on the older works, expanding existing production with Chinese engineering technology, and concentrating as much as possible on the transfer of know-how where it is not.

At Anshan the plans for the next eight years envisage additions of 2.5m tonnes a year to the present annual capacity of only 7.75m tonnes. Mr Liu is confident that the new incentive structure will enable him to meet the state's target for new capacity in the present five-year plan, two years ahead of schedule.

This is partly because the 200,000 workers in the factory are already tasting the rewards of better organisation and the ending of outdated restrictive practices. A new 300,000 to 400,000 tonne rolling mill of US design, for example, was commissioned in 13 months instead of the planned 30 months, mainly because four teams concerned with design, construction, operation and commissioning were put together under one leader instead of getting in each other's way as in the past.

The pay-off has been considerable. About Yuan 1.6m ($430,000) was saved on the project and divided according to a formula which seems fairly typical for Chinese enterprises nowadays. Half went to the complex as a whole, 30 per cent was used directly for further investment, 10 per cent was earmarked for workers' welfare, and another 10 per cent was paid out in special bonuses in proportion to the contribution made by individual workers. The average bonus of about Yuan 60 represented about half the monthly basic wage, but the 2,500 people on the project were not rewarded equally, so some received far more.

This ability to reward workers, combined with much greater flexibility in managing investments, is now seen as the key to better performance in the future, though the problems at Anshan as elsewhere, are formidable. Mr Liu lists not only old equipment, but overmanning, poor discipline among the workers and excessive fuel consumption among the tasks to be overcome.

For China as a whole, these difficulties add up to serious doubts whether production can be raised fast enough to avoid continual shortages, high marginal prices and a sustained level of imports.

Although China is now the world's fourth largest steel producer, with total output of about 55m tonnes expected this year, it is also one of the world's largest importers of steel, with imports running at 15m tonnes this year. China is still not able to produce enough high quality steels like those needed for steel plates in cars and seamless pipes for offshore equipment, even though overall output has been growing at 7 to 8 per cent a year.

Even if the country meets its target for production of 58m to 60m tonnes by 1990 and 80m tonnes a year by the year 2000, it is still likely to be well short of meeting total demand which has been estimated at 100m tonnes a year by the end of the decade.

One of the reasons is that the economic reconstruction of China's economy is leading to a rapid increase in steel consumption. Average steel consumption in China, at 50kg per head of population, is still only a third of of the world average.

To meet this expected rise in demand, China has been busy securing its raw material supplies. Hence, the recent joint venture with Hamersley in Australia for the production of 10m tonnes a year of iron ore. More recently, it has been talking to Krupp of West Germany about a joint venture plant at Taiyuan to produce 300,000 tonnes a year of special high quality steels, which are in chronic short supply in China.

In the longer term, however, joint ventures, foreign capital and local initiatives cannot solve the mismatch between supply and demand for steel products in China until a more rational pricing policy is adopted. This is recognised by the ministry, which plans to reduce the official quota gradually, in the hope of cutting the differential between official and market prices.

No-one seems to know quite how the great experiment with market pricing and more flexible funding of investments will work out. As Mr Liu says: "In the past the director's responsibility was simply to meet ever-increasing demand. Now he has to keep one eye on the demands of society and the other eye on profit."

Max Wilkinson

The Anshan complex, one of the world's biggest steel producers

Nuclear power

Coal resources lead to shift in strategy

CHINA'S AMBITIOUS strategy for reducing electricity shortages and meeting the power demands of an expanding economy is being re-appraised in several important ways.

Since 1979 a huge effort has been made just to get more Megawatts onto the system, by almost any means available. Turbine generators and boilers have been imported from almost every country that makes them, often at knock-down prices. Meanwhile China's power engineering industry has been expanding as fast as it can on the basis of US and Soviet technology.

Under the five-year plan up to 1990, nuclear power, hydro-electric schemes and coal-fired power stations were expected to contribute to the national need at the maximum feasible rate.

China's plan is to increase generating capacity by some 30,000 MW to 35,000 MW in the four years to 1990 and to sustain a growth rate of plant capacity of 8 to 9 per cent a year. By the year 2000, it expects to need some 240,000 MW of capacity compared with 100,000 MW now.

This is not just to accommodate increased economic growth. Power shortages are still acute, with blackouts and industrial shut-downs common in most parts of the country.

Estimates presented to a seminar in Peking last month suggest that more than 20 per cent of China's industrial production capacity is unused because of shortages of electric power. In the populous south-east the shortages are much worse, while more than 40 per cent of villages have no electricity at all.

Overcoming these shortages and meeting the demands of growing commercial and industrial sectors, therefore, have been given top national priority. However, the wider economic reforms and the constraints of technology have led to re-examinations of the structure of the industry, the role of nuclear power and the siting of major power stations.

At the beginning of the decade, the major problem confronted by China's planners was that the largest sources of energy were in remote regions, with the largest coal deposits in the north and west and much of the potential for hydro-electric power in the south-west.

Since hydro-electric schemes consume huge quantities of scarce capital, both for construction and for the transmission lines it was recognised early that coal would have to provide some 70 per cent of electric power in the foreseeable future, though it was hoped that nuclear power would provide perhaps 5 per cent of the country's needs by the end of the century.

The reliance on coal required a major expansion and electrification of the railways, about half of whose capacity is now used in transporting coal. In addition, many more high voltage (500,000 volt) transmission lines were planned to carry electricity from large power stations near pitheads to the eastern provinces where 90 per cent of the population lives.

Official plans still envisage that some 10,000 MW of nuclear plant (equivalent to 10 largish reactors) will be built by the end of the century with 8,500 kilometres of 500 kV transmission lines to interconnect five of the present seven electricity grids.

However, it is clear that the the emphasis is now shifting away from large nuclear and minemouth coal-fired stations in favour of rather smaller projects situated nearer to centres of population. The move reflects increasing scepticism about the economic benefits of nuclear power in a country with vast resources of coal whose economic cost is low, even allowing for transport. The doubts were given added emphasis by the Chernobyl disaster in April 1986 and by defects already discovered in China's Daya Bay nuclear station, being built as a joint venture with China Light and Power of Hong Kong.

China's dilemma over nuclear power is that it makes no sense to develop such a difficult - and potentially dangerous - technology in a piecemeal way. A fairly substantial programme based on a single technology is needed to ensure the best use of manufacturing resources and scarce engineering skills.

However, the two 900 MW reactors at Daya Bay are being built to French designs, while a 300MW reactor at Qinshan near Shanghai is of Chinese design, based closely on a Westinghouse pressurised water reactor. Two more 600 MW reactors at Qinshan are to be built to designs of Kraftwerk Union of West Germany. It seems probable that the authorities will wait to see how both projects progress before authorising any more nuclear plant, and it may be that the nuclear programme will be put on the shelf for many years.

This would shift the emphasis towards coal plant in the provinces of the south-east. At the same time the loosened grip of central planning departments is shifting the task of supplying these regions to the localities.

Provincial governments, townships and even local enterprises are now being encouraged to build power plant for their own needs. This, it is hoped, will promote local initiatives in the conservation and better management of power. However, it has meant a shift away from the idea of large minemouth power plant in remote areas towards siting plant in the richer areas where revenue and foreign loans can more easily be raised.

In Shanghai, for example, agreement was recently reached between the Huaneng International Development Corporation and 14 foreign banks for a $90m loan to finance China's first super-critical coal-fired plant with two 600MW units capable of supplying a third of Shanghai's present power needs. Inevitably, however, strong central control will be required for the development of such a vast industry, which expects to complete 8,000 MW of new plant this year with investment of about Yuan 12bn (£1.8bn or $3.23bn).

The question now being debated is whether the industry should continue to be run by the Peking ministries, mainly the Ministry of Water Resources and Electric Power (MWRE), or by a semi-autonomous enterprise more similar to Britain's Central Electricity Generating Board.

Mr Yao Zhenyan, vice minister at MWRE, favours such a devolution, which would be in keeping with China's general policy of trying to improve the flexibility and motivation of enterprises by easing the stranglehold of bureaucracy. But it would not make much sense unless the industry could move towards being self-financing. This, like so much else in the Chinese economy, depends in turn on a more rational pricing policy with prices more in line with real costs, including financing costs.

At present electricity prices scarcely cover operating costs, which are in any case depressed by the artificially low prices charged for coal.

Tariff reform will take many years, because of the fear that widespread price increases for basic energy would fuel inflation. However, there is no doubt that as China moves to a more open and diffuse system, rational pricing will become more and more important, particularly as the planners' grip is being weakened by shortage of centrally administered capital.

Max Wilkinson

Coal, which provides most of the country's energy, will remain pre-eminent and also be a major export

Expansion needed to meet targets

ON A cloudless autumn day in Shenyang, the industrial heart of the province of Liaoning in northern China, a livid orange disk hangs above the factory chimneys where the sun should be.

For miles around, black smoke is belching into the atmosphere, and descending as a choking haze even far out into the countryside.

The air pollution and the grime that covers everything including the plants have become a major anxiety in many industrial cities in China. The problem will not go away, because coal, which now provides 72 per cent of the country's energy, will retain its pre-eminent place for decades and probably for centuries.

This makes it particularly important that China should invest in more efficient and cleaner ways of using the fuel, even though coal-mining has made tremendous strides in recent years and seems capable of meeting future needs.

The country's fuel use is only about half as efficient as in the developed countries, wasting some three-quarters of the available energy up the chimney - and the black smoke so often belching out is a symptom of inefficiency. Typical industrial boilers, where half of all coal is burned waste about 85 per cent available energy, according to recent independent estimates.

Altogether, China uses about four times as much energy as France to produce an equivalent amount of national output. In the present five-year plan up to 1990, energy savings, mainly from replacing worn-out equipment - are intended to reduce the amount of coal required to produce Yuan 10,000 ($2,700) worth of national income from 12.9 tonnes to 11.4 tonnes. This is expected to save some 100m tonnes of coal during the period.

Even so, China will need to continue to expand its coal production at a fairly rapid rate, not only to keep pace with increasing domestic energy needs, but to meet new and ambitious targets for export.

After production of 894m tonnes of coal last year, output this year is expected to be more than 900m tonnes, with a projected rise to 1bn tonnes by 1990.

At that rate China's known recoverable reserves would last for about 100 years, but the total known coal reserves in China, including deposits which would require new technologies to extract, could in theory last for almost 1,000 years at present rates of production.

Miners in the Shaanxi province, which produces much of China's coal for export

For the more immediate future China has very good reserves of all important grades of coal, which can be extracted relatively easily and cheaply. A recent discovery in Shandong province, for example, has some 5bn tonnes of proven deposits in seams with an average thickness of more than eight metres.

The major problems facing China's coal industry are therefore neither the availability of supplies nor the cost of extraction. They are, rather, the remoteness of some of the largest coal reserves and the poor quality control for the finished product, which is often mixed up with much rock and waste material.

A recent study by the Paris-based International Energy Agency says that Chinese coal shipments contain about a third less useful energy than standard grades on the world market, mainly because of the large amount of inert matter mixed up with it.

This poor quality control has put an extra strain on the Chinese railway system which has to transport large quantities of waste matter for thousands of kilometres across the country from the pithead to the end-users.

The low and unreliable quality of Chinese coal has put off foreign buyers in the past. As the IEA study says: "A precondition for an substantial market gain is that China will rid herself of her bad reputation with regard to delivered coal qualities."

Nevertheless, all the indications now are that China intends to make a determined effort to become a major coal exporter during the next few years, probably starting with markets in the Pacific rim and then perhaps looking towards Europe. And this appears to be linked with a strong drive to improve quality.

In 1984 almost 60 per cent of coal was supplied from the pithead without being processed, but the amount of completely raw coal supplied has dropped to 10 per cent. Only about 15 per cent of Chinese coal is washed, but washing capacity is to be doubled to 200m tonnes a year by the end of the century.

Since China is likely to need a growing proportion of its oil for domestic consumption, coal exports would appear a natural way to boost foreign exchange earnings.

This year, Western analysts believe it is unlikely that China will meet its target of exporting 16m tonnes of coal, partly because of transport problems, but also because of the difficulties of selling into a weak world market, where many buyers appear to have preferred to stick to established relationships.

By 1990 there is a growing consensus that China will be able to achieve its target of 30m tonnes of coal exports, even if that should mean some restrictions in domestic supply.

However, the true balance of internal supply and demand will remain difficult to evaluate. According to World Bank estimates, the true long run marginal cost of coal in the north and north-west regions ranges from about Yuan 40 to Yuan 55 per tonne ($11 to $15). This compares with an official price of Yuan 33 per tonne, though the coal sold "off quota" (about 25 per cent for state mines) can reach three times the official price.

For export, the IEA estimates that China could deliver coal even to Europe and Latin America at a lower cost than any other supplier except South Africa, in spite of the fact that Chinese coaling ports are not yet deep enough for the largest bulk carriers.

However, even though dredging plans for the major port of Quinquandauo remain to be agreed, China already has port capacity to ship some 60m tonnes a year, so that its potential exporting ability is already larger than that of South Africa.

For the time being, however, the constraints of the domestic economy and the relatively depressed state of the international coal market are likely to restrain China from pushing coal exports up to anything like their maximum physical limit.

The bulk of future exports seem likely to come from certain designated mines, for example Shenmu in the Shaanxi province, especially after the completion next year of the new double tracked electric railway from Datong to Quinquandauo.

The major An Tai Bao mine in Shaanxi this year has also stepped up export potential. This is the $700m joint venture with Occidental Petroleum of the US which was formally opened with fireworks and drums this autumn.

Shortage of capital seems likely to slow down the emphasis on such grand projects for the time being, however China pulled out off a huge joint venture project with Bechtel for the development of a 35m tonne per year open-cast mine in Jungar, Inner Mongolia last year, and the emphasis has now shifted to the development of existing mines and promoting the output from the 60,000 smaller mines owned by provincial governments, townships and collectives.

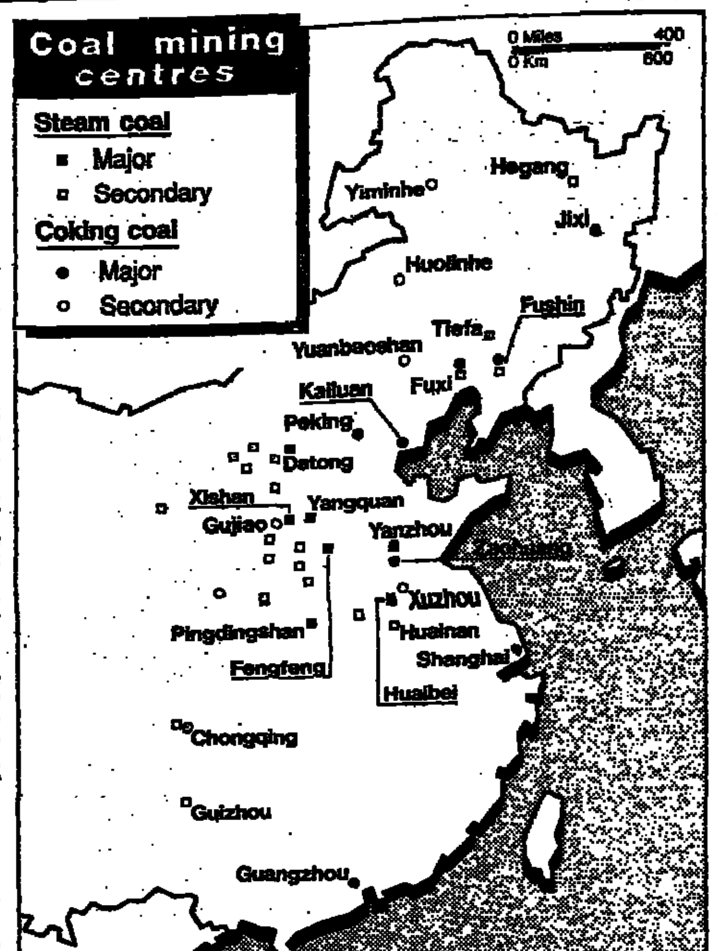
Although some of these mines are no more than pick and shovel operations, the non-state sector accounts for about half of all China's coal. It has been growing fast, mainly because of the devolution of responsibility from the centre and the opportunity for smaller enterprises to retain profits. The smaller co-operatives, which now account for 30 per cent of production, have raised output by 150 per cent since 1980 to an estimated 280m tonnes this year.

Nevertheless, the major gains from this sector may now be past. The larger state mines which are becoming steadily automated (about half the coal-faces are now fully automated), are hungry for new capital. State subsidies for capital spending and operating losses are now running at Yuan 50 to 60 per tonne ($13 to $16), in spite of the fact that the state mines pay no interest on their borrowings.

It is clear, therefore, that domestic coal prices need to rise substantially, perhaps in gradual stages. Even so, the IEA estimates that China ought to be able to deliver significant quantities of coal to exporting ports at between $15 and $20 per tonne. And although its inability to use very large bulk carriers could add some $16 per tonne in the European market compared with Australia's freight cost of $10 per tonne, the coal could still be priced very competitively.

"China's Potential in the International Coal Trade, IEA Coal & Research, 14-15 Lower Grosvenor Place, London SW1

Max Wilkinson
Resources Editor



Oil

Recent discoveries confirm large offshore potential

AFTER YEARS of rather mixed fortunes, China's oil industry is showing a remarkable rebound in confidence this year.

Total production, almost all from onshore fields, rose again this year to an expected 134m tonnes, about 4m tonnes more than in 1986 and well above the plateau of around 100m tonnes a year reached after 1978. Offshore production this year is expected to be about 700,000 tonnes, a figure which reflects the major oil companies' past failure to discover significantly large deposits of commercial significance despite the $4bn spent by foreign oil companies drilling more than 160 offshore wells.

Although 29 per cent of these wells struck oil, few have been declared commercially viable, and none so far is producing more than a relatively small quantity of oil.

However, this year three important discoveries offshore have confirmed that large quantities of oil do exist off the China coast, even though the extent to which it can be recovered economically remains problematic.

Two of these discoveries were announced in July. Each deposit is thought to contain more than 100m tonnes of oil, although much appraisal work will be required to find how much can be brought to the surface. The two discoveries by the China National Offshore Oil Corporation (CNOOC) were in Liaodong Bay, to the north of Bohai Bay, and in the Beibu Gulf west of Hainan Island. In March, Amoco announced that it had found a reservoir, also thought to contain more than 100m tonnes at Liuha near the mouth of the Po river.

Total "geological" reserves in these three fields may be more than 400m tonnes, says Mr Dou Bingwen, director of the international co-operation department of the Petroleum Ministry.

"Last year I saw some reports that China's offshore oil potential was becoming exhausted. These three major discoveries prove that they were too pessimistic," he says.

The ministry believes that there is now some revival of interest among the major oil companies as evidenced by a new licensing agreement in Bohai Bay with Amoco, and with BP for exploratory drilling in the South China Sea. Mobil, which took no part in the first and second offshore licensing rounds, is now said also to be discussing possible co-operative ventures with CNOOC.

However encouraging this revival of interest may be to the Chinese authorities, it has not been enough to raise any thoughts of a further licensing round after the marked lack of interest in the second round. The strategy remains to talk bilaterally with those oil companies which show an interest and to negotiate flexible terms which generally allow companies to back away from a contract after some preliminary exploration work.

For although the recent discoveries, especially that by Amoco, are regarded by Western oilmen as encouraging, much work remains to be done to discover how much of the 400m tonnes can be recovered economically.

Amoco has yet to declare whether it will develop the field. And though it is expected to do so, the 300 metre-depth of water and complex geology of the field may limit its commercial attractiveness.

The problems of exploiting offshore hydrocarbon reserves from China are emphasised by the fact that there is still no solution in sight for the production of the very large reserves of natural gas discovered by Atlantic Richfield (Arco) off Hainan Island. The use of this gas requires a large infrastructure to be built up in the southern provinces, or alternatively a major pipeline to be laid some 500 miles north to Hong Kong.

To meet its target of steadily increasing production reaching 150m tonnes of oil a year by 1990, China must therefore place most of its hopes on the development of existing onshore fields and new onshore discoveries. For the next few years the largest oilfield, at Daqing some 250 miles south of the Russian border in Heilongjiang province, seems assured of producing a steady flow of oil, which will probably continue to account for half of China's total production.

With enhanced recovery techniques, mainly electric pumping from about 10,000 wells and water flooding, it is now hoped to extract as much as 50 per cent of the oil in this field and reach peak production in about 1995. However, with more than 1,000 wells drilled this year and three-quarters of all wells requiring electric pumping, the real costs are relatively high.

Until a new Daqing is discovered - perhaps in the far-off Tarim basin some 3,000 km west of Beijing - squeezing out the last drops from existing reservoirs will be vitally important. In the Tarim basin three exploratory wells struck oil earlier this year and some 10,000 geologists and drillers are carrying on the search. However, even if large deposits are found in the area, the cost of transporting oil to areas of population would be huge.

Nevertheless, China will be in great need of oil, not mainly for direct exports which have become less important in recent years, but to fuel the growing fleets of lorries and cars and to keep the extensive petrochemical plants operating. China is now the world's sixth largest producer of refined products, producing more than 100m tonnes of distillate a year. However, petrol and diesel oil supplies remain chronically short, and it has been estimated that as much as a third of the transport fleet is idle at any one time through lack of fuel. This reflects the growth of the vehicle fleet at rate of 9 per cent a year since 1979.

The growing emphasis on a market or "commodity" economy is certain to increase pressure on road transport and the newer generation of trucks and cars being produced or planned by China's motor factories will help to supply the demand. Even if China manages to meet its targets for increased oil production and improvements in efficiency of refining and consumption, it seems likely that domestic demand will outstrip supply, so that exports will have to be steadily cut back. Dr David Frindley, head of the China Energy Study Resource Systems Institute in Honolulu, estimates* that in real terms over the next seven years China's export earnings from crude oil and petroleum products are likely to fall to about half their present level of about $4bn.

As he says: "Despite the restraints of the early 1980s, central control over oil demand has weakened substantially, resulting in less available oil for export. In the future China's leaders risk economic destabilisation if shortages of fuel, particularly gasoline, are allowed to develop without check."

Judging by the strong emphasis now being given to domestic exploration and the encouragement of foreign companies, China's leaders know this risk is a real one.

**From Toppers to Bottoms by David Frindley, Resource Systems Institute, East-West Center, Honolulu, Hawaii 96848.*

Max Wilkinson

A notoriety for poor design and low quality products

The jumble of technologies

TO FIND out what is wrong with Chinese technology, all one needs to do is to visit the bathroom in a new provincial hotel. The bathroom is modern, it is imported, it is badly installed and it does not work.

The problem, as the Government is well aware, is lack of know-how and inattention to detail. Professor Ronald Amberger, a visiting engineering specialist from New York State, became so infuriated when steam poured out of his bathroom taps, that he demanded to be taken down to the boiler room to see what was wrong.

"I wrote a report saying the problem could be solved by a few dollars spent on a thermostat and control valve, but I don't imagine anything was done," he says. "The crazy thing was that the system was quite new, but the valves were jammed through lack of use and it was costing them a fortune in waste heat."

The same tale with different details can be told from enterprises large and small throughout China. The effects of the Cultural Revolution, when schools were closed and professors were forced to become peasants, will take many years to overcome, as the authorities are well aware.

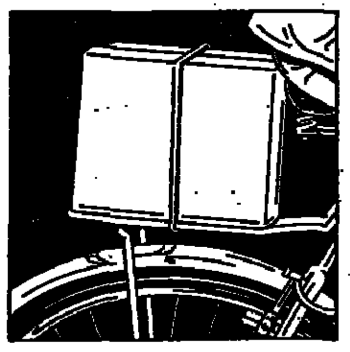
Although imports of foreign hardware are still desperately needed to help modernise China, the emphasis has now shifted towards the transfer of skills and technology as much as possible. However, the highly-specialised nature of China's technical education system, and the method of assigning students to factories still hamper progress.

For example, a university level engineering student may concentrate on a field as narrow as the construction of electric motors, without learning anything about thermodynamics. At the end of his course, however, he will be assigned to an enterprise on the basis of his grades, his expressed preference and the bids made by industrial managers. Thus, many students who do not get their first choice end up in areas for which they are poorly qualified.

The results are poor design and low quality products, for which Chinese industry has been notorious. A major effort to correct this after 1978 resulted in a huge inflow of imported technology from turbine generators and oil refineries to computers and colour TV production lines.

This has resulted in many sectors in a chaotic mixture of technologies which seems certain to create problems for the future.

Inattention to detail and narrow specialisms mar progress. Right, the work of a manager



China has set up 113 different colour television assembly lines, mainly with foreign technology, but most of these are too small to be efficient by the standards of more advanced nations.

Another example is the power station building programme, which resulted in the purchase of equipment from manufacturers in France, the UK, the US, Switzerland, Germany and Italy as well as from almost every Eastern European country. As one prominent Western manufacturer says, this will create great difficulties in providing spare parts in the next five to 10 years, which will be compounded by language problems.

It is not only the construction and design engineers which need to learn the language of the supplying country, but operators, too, have great difficulty in transferring from one make of foreign plant to another.

At the Liaoyang Petrochemical Fibres plant in Liaoning province, most of the dials in the control room are labelled in English. No attempt has been made to translate instructions into Chinese, even though many of the control room staff do not understand Roman characters. The problem is overcome by rote learning. Operators know that if such and such a dial moves into the red sector, they pull such and such a lever. It works, but the limitations are obvious.

In many specialist sectors like petrochemicals and nuclear power, China has little option but to import from the industrialised countries. However, where possible, the policy now seems to be to concentrate on second-best, home-made solutions.

For power generating equipment, for example, China has made a big effort to increase the size of machines as well as production capacity. As a result, it is now able to make 600 MW sets, which may not be the most advanced in the world, but are adequate for the country's needs.

A similar approach is evident in the steel industry, where foreign technology will long be needed to manufacture high quality products. But indigenous technology is being developed, mainly at the less sophisticated end of the business.

It is the computer industry, however, which presents China with its most difficult technological challenge. The economic reforms now under way will depend on much more sophisticated monitoring and control of the financial sector, both nationally and by the major enterprises. As a result, ambitious plans are being laid to computerise the banking sector, tax gathering, communications, the railway network and electric power distribution.

This will inevitably require the import of large business computers which are at present restricted for security reasons by the Cocom Committee, mainly because of pressures from the US. Although China has its own super-computers, mainly for military use, there are few of these.

It has a micro-electronics fabrication plant near Shanghai, but the technology is very unsophisticated by modern standards. It is capable of etching eight layers onto one chip, compared with 20 to 30 layers in more advanced western plants. Its techniques for making memory chips are probably more than a decade behind, which in such a fast-moving industry is to be quite out of the race.

One response has been to set up the Great Wall computer company, which has brought together smaller enterprises to manufacture desk-top personal computers to larger business machines. Mr Philip Yu, general manager of China Hewlett-Packard, the largest joint venture in the field, says he is not optimistic about the future of the Great Wall company, because its "organisation is too loose."

As Europe has already found, keeping pace with US and Japanese information technology is no easy task without joint ventures.

But in China, the prospects for a computer manufacturer wanting to enter a joint agreement are not good. Since almost all the machines are likely to be needed in the domestic market, foreign exchange earnings are likely to be low. For Hewlett-Packard, that has meant that no profits at all have been repatriated to the parent company in the US since its 57.5 per cent owned China subsidiary was established 12 years ago.

H-P is characteristically taking the very long view, although it is also making some money-selling components to be assembled in China. This kind of venture seems to be the way forward for China, because it is staffed mainly by Chinese engineers, whose basic salary might be Yuan 2,000 ($540) a year. By contrast, the cost to a large US computer company of keeping an engineer in China could be $100,000 to $150,000 a year.

However, the difficulties of training Chinese students in computer science are formidable. One college lecturer said that most of the students on his course were unable to understand the simple English prompts which computer languages throw up on the screen.

A national survey showed that a majority of the computers bought in the first flurry of buying this decade were under-used or lying idle because no-one in China understood how to use them. This may change with the invention of a number of systems for inputting Chinese characters into a simple personal computer, using the standard-sized keyboard. The marriage of word-processing and Chinese bureaucracy might yet prove to be explosive.

The most desperate need, however, is for computers in industry, not merely for the control of robots, where some imports are already appearing, but in the much-neglected areas of financial control and analysis, stock control and the general promotion of efficiency.

If the West wants China to continue on this path, its highly restrictive attitude to exports of computer and communication technology must be rethought. Although the country seems on the road towards economic liberalisation, one of the most formidable obstacles, over which it could yet stumble, is the backward state of its technology.

Max Wilkinson

Mrs Zhou Guiying, outside the engineering factory she manages in Shenyang

Management reforms

The next stage after profit and incentives

MRS ZHOU GUIYING looks altogether too motherly to be one of the shock troops in China's struggle to subject Communism to the discipline of market economics.

However, her dingy little engineering factory on the outskirts of Shenyang in Liaoning province, is one of only a handful in China to have been threatened with that ultimate capitalist penalty: bankruptcy.

Mrs Zhou was moved in to rescue the Shenyang Hardware Factory's 120 workers four years ago. Now she can report her mission accomplished. The dreaded "yellow card" bankruptcy warning was withdrawn by the provincial authorities this summer. A gaudy "certificate of merit" now adorns her office, where two battered desks and a sofa huddle together on a cracked concrete floor.

By Western standards, the factory is still little more than a backstreet operation, making pressings from scrap steel, recycling old tin cans and assembling a simple electronic device from bought-in parts. But there is one huge change from the early years of the decade when the factory ran up losses of almost Yuan 300,000 ($80,000): it is now making things that people want to buy.

Sales this year are running at twice the planned level and profits, at Yuan 75,000, will be three times the target.

Such a rapid improvement was possible because the previous management was, as Mrs Zhou says: "chaotic", with a record of dismal productivity and low quality, a fairly devastating combination for an engineering company at the bottom of the technological league.

These were extreme symptoms of the disease which stultified Chinese industry during the long period when factory management was dominated by party politicos. Workers were paid exactly the same whether they performed well or not. Managers were given few powers and no incentives; and because prices and output were fixed by the state, many factory bosses scarcely recognised the concept of profit, in either an economic or an accounting sense.

Mrs Zhou therefore represents a new style of management which has been developing over the last few years, and now seems set to become more vigorous and more widespread as the effects of this year's Party Congress become absorbed by the provinces and townships.

Managers in a wide range of enterprises including small engineering works, the largest industrial complexes, banks and travel services, all speak with a renewed confidence that their role has been confirmed. Profit, bonuses and investment are now the key words. In a country where rationing and price controls are still endemic, an enterprise's profit is still rather an arbitrary figure, particularly as tax rates are negotiable with provincial authorities.

Nevertheless, there is little doubt that the ability to generate and retain profits is having a highly beneficial effect. In Mrs Zhou's factory, for example, about a quarter of the average worker's monthly pay of Yuan 120 ($32) represents a bonus, which is broadly related to profits, but more important, is distributed according to merit by the factory director.

"The workers are very content with the new system. If they operate well and profitably, they see that they get good wages; otherwise not. So they are very concerned about the quality of the product and observe the regulations very strictly," Mrs Zhou says.

The linking of profits and rewards is part of the new management responsibility system, which will be extended next year to about 80 per cent of China's medium-sized enterprises according to Mr Song Tingming, director of the country's Commission for Restructuring the Economic System. This system is likely to exert much more leverage than the idea of bankruptcies, which has run into political opposition in Peking, and has been applied in practice only to two enterprises in the whole of China.

Even so, managers' powers are still fairly limited. They can organise the workload of their factories without outside interference, and can shift employees around and pay them different bonuses. These bonuses can add 50 per cent to the basic monthly wage of around Yuan 100. Sometimes, bonuses can be two, three or even four times the basic monthly wage.

Although this clearly confers strong powers on the factory managers, it is also beginning to create tension, because the state or provincial governments often allow managers to use some of the surplus generated for capital investment. At the Liaoyang petrochemicals plant, for example, capital investment allocations are "decided" by a workers' committee, although management submits proposals and the state government clearly has the final say at an installation of such strategic importance.

In smaller works, however, the system allows plenty of scope for argument. At the Iron Printing Factory in Harbin, for example, there appears to be a lively debate going on as to how the Yuan 740,000 profit expected this year should be distributed.

The director, Mr Han Guofu, is one of China's contracted managers, who won control of the enterprise in a competitive bidding round, judged by a committee of local worthies. His group beat four other management groups last year, and promptly doubled profits. About two-thirds of the profit will be handed back to the state and to the provincial government which owns the plant, and the remainder will be allocated between bonuses, welfare and capital spending, according to a formula which allocates 70 per cent to workers' welfare and bonus.

Mr Han, a brisk 41-year-old engineer in a neat brown blazer, is one of the managers who has broken comparatively free from bureaucratic and political interference. His contract, which sets out rights and obligations on both sides, does not include a production target or even a profits target. He has been given considerable power to develop products, look for new markets and organise his workforce accordingly. But on the vital matters of capital spending and bank borrowing, he will need to keep in with the provincial authorities and to keep his workers on his side.

Now that the worst inefficiencies have been flushed out, continued growth (only 10 per cent is projected next year) must depend on expensive re-equipping, so Mr Han will have to persuade workers that the recent rapid rise in earnings is a one-off bonus unless they want to jeopardise investment for the future.

This, in different ways, is the crucial problem facing managers all over China. As the World Bank has noted: "In socialist countries, managerial control tends to differ only slightly from worker control, since managers find it hard to resist worker demands for greater benefits or to insist on the often unwelcome changes in work practices that are needed for innovation and increased efficiency ... studies of experimentally reformed enterprises controlled by their managers reveal large increases in worker benefits, but small increases in economic efficiency."

Much, no doubt, will depend on the personality of the managers themselves in relation to workers' representatives. However, it seems unlikely that the recent improvements can be sustained without continuous reform to bring real pricing flexibility and competition to bear on individual enterprises.

At a factory in Changchun, in Jilin province, maximum output of Japanese-designed washing machines was said to be exactly equal to demand, even though prices were fixed by the provincial authorities, subject to an 8 per cent variation up and down by the factory. But if the Government is successful in its present hope of curbing consumer spending and reducing the growth of the money supply, this factory, like many others might in theory be faced with a decision whether to make a substantial cut in prices to keep up production and minimise unit costs. At present, the administrative machinery for making this kind of decision seems to be almost non-existent.

However, this goes far beyond the issue of management. It requires the authorities in Peking to confront the fact that controlling inflation by holding back growth of the money supply may mean that the price of washing machines and the wages of the workers who produce them will have to fall. Or, to put it another way, management reforms based on the idea of profit and incentives will make no sense at all in the longer term unless they are associated with a liberation of prices on a grand scale. And that will require great political courage.

Max Wilkinson

The North-East is the country's granary and industrial heartland

A powerhouse for change

FOR MORE than 50 years up to the 1949 Revolution, China's North-East - nowadays called Dongbei - was fought over with a ferocity that few other parts of that country suffered in its civil war period.

As Dongbei has emerged today to be China's main granary and industrial powerhouse, it is not hard to imagine why first Japan and then the Soviet Union fought so jealously to win control of the area.

At the same time, however, as the heartland of Mao's command economy, with giant state factories and state farms dominating the region, Dongbei has come to symbolise so many of the things that are wrong with Mao's vision of how Communist China should be run.

Not surprisingly, therefore, it has become a major focal point for financial and economic reform as Deng Xiaoping has tried to breathe fresh life into the country's massively inefficient industrial sector. Bond markets, factory leasing, contracted management and other market economy experiments have been more ambitious here than elsewhere in China.

In so far as they succeed - and early signs are encouraging - the region will not only set a powerful example for the rest of the country, but will boost supplies of coal, iron, steel and heavy industrial equipment which are in critically short supply, thus holding back economic growth.

As early as 1895, when the ailing Qing Government in Peking ceded the Liaoning Peninsula to Japan, Tokyo's military leadership had a clear vision of how the area then called Manchuria could play a critical part in its imperial expansion.

Unlike anywhere else in China it was sparsely populated - in part because the Manchus who conquered China and set up the Qing dynasty in the early 17th century refused to allow settlement in their homeland - and rich in natural resources like coal and iron. The vast, virgin steppelands stretching from the mountain border with Korea in the east to Mongolia in the west, had about three times the land area of Japan, and they were immensely fertile.

Japan's ambitions were frustrated, however, by other jealous colonial powers like the Soviet Union and the US, with the whole of Dongbei being assigned to Russia in 1905. The Imperial Russian Government wasted no time in building a railway from Siberia to Port Arthur - now Lushun - at last giving it a warm water port in the Pacific.

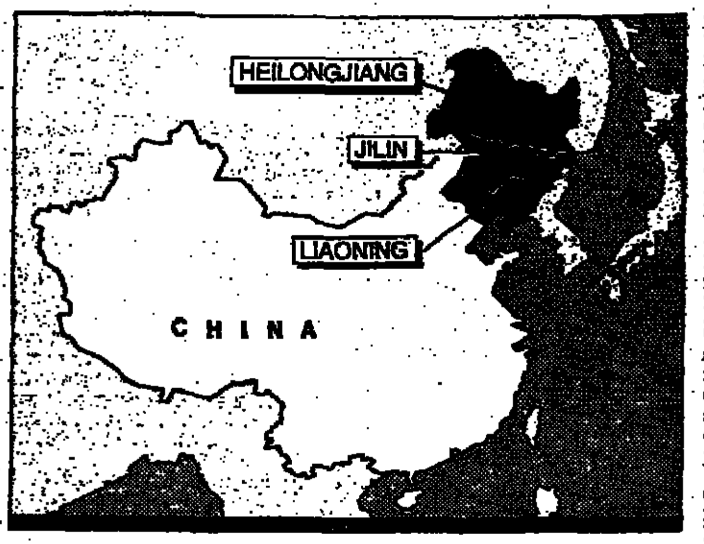
As the Russians were plunged into their own revolution, so local warlords wrested control, prominently Zhang Zuolin. However, growing conflict between Nationalist and Communist forces inside China gave Japan the second chance it needed. The puppet kingdom of Manchukuo, based on Changchun which is today the capital of Jilin Province, was set up in 1931 with the deposed child emperor Pu-Yi on its throne.

For the next 14 years, China's North-East became a critical supply-base for Japan's war effort, and a launching pad for military expansion across the length of China.

The surrender of Japan after atom bombs were dropped on Hiroshima and Nagasaki brought no relief to the region. As the Russians snatched control, Japanese troops pulled up railway lines in their retreat, while Soviet troops sacked the region. Even office furniture was taken and transported west across Siberia.

It is hardly surprising then, that this area was one of the earliest to give support to China's Communist army, and after liberation in 1949 was one of the most committed to Socialist Revolution. Even today, despite a heavy littering of grand buildings of Japanese and Soviet design, and a substantial White Russian minority in cities like Harbin, close to the Soviet/Siberian border, enmity towards colonial powers - and in particular Japan - is never far from the surface.

From 1949, the heavy industrial base in Dongbei has been rebuilt virtually from scratch. From Shenyang, the capital of Liaoning province, one of the best road and rail infrastructures in the whole of China radiates out - south-west to Peking and Tianjin, north-east to Changchun and Harbin, and south to Anshan, and the port of Dalian.



Focus on the North-East, nowadays called Dongbei, and over the next three pages, Tianjin, Shanghai and Jiangxi

Mao Zedong's statue in the centre of Shenyang

Today, the North-East accounts for about one-third of China's industrial output. Giant industrial complexes like the Anshan steel works, with its 390,000 workforce, produce a quarter of the country's steel. The Daqing oilfield in Heilongjiang even today accounts for half of the country's oil output.

State farms cleared from virgin steppelands over the past 40 years today make Liaoning, Jilin and Heilongjiang the country's most important suppliers of grains ranging from wheat and rice to millet and corn. It is one of the world's main bases for soya bean production, as well as esoteric but lucrative crops like ginseng. It is China's only dairy farming area, and accounts for the country's entire crop of flax, used in the manufacture of linen.

The region gained from the ideological backing provided by Peking, but in recent years has come to pay a high price for being so dominated by state enterprise. Capital investment has been badly neglected as factories have been forced to remit the great majority of profits to Peking. Efficiency and productivity have slumped as workers have been paid the same salary, regardless of their effort or the marketability of their output.

Even today, officials in Jilin's Bureau of Foreign Economic Relations and Trade can report with equanimity that exports from the province are expected to amount to \$400m this year, compared with \$500m in 1986. Since these earnings are remitted in their entirety to Peking, with factories having to appeal to state ministries if and when they need foreign exchange to buy equipment from overseas, they are untouched by this 20 per cent fall.

This is what economic reformers complain about when they talk of workers "eating from the same big pot," protected by guarantees that output will be paid for whatever the quality, and irrespective of national demand for the product, and by assurances of lifetime employment.

The practice - and its effects - are perhaps more widespread here than anywhere else in China. They are compounded by the fact that this area has in the past manufactured almost entirely for the domestic economy, having very little interest or involvement in the international trade that has elsewhere been a stimulant for improved quality.

They have also been compounded by the discreet omnipresence of China's military, particularly during the 1960s and early 1970s, when relations with the Soviet Union were particularly poor. Strategic imperatives meant the area was one of the slowest to open up to the outside world, and that normal industrial development was hindered by the need to take account of the demands of the military.

As reformers elsewhere have tried to reinvigorate their economies, so they have found their efforts frustrated by shortages in supply of raw materials, continuing poor quality, and long delays in delivery - and many of these frustrations trace their roots to Dongbei.

This perhaps explains why Shenyang and Liaoning in particular have been pushed into the limelight as centres of economic and financial reform - with a widely publicised bankruptcy, a fast-developing bond market and literally thousands of loss-making factories being leased or contracted out to workers on terms that have shifted responsibility for profit and loss, and enabled the provincial and municipal governments to slash industrial subsidies.

Hundreds of factories which have for years been making products that no-one wants are now being taken in hand by profitable companies in what Chinese officials call "horizontal association," with workers being retrained to produce new goods on terms that for the first time since liberation reward efficiency and financially penalise poor workmanship.

A Shenyang woman, Guan Guangmei, has won nationwide fame, being elected to the National People's Congress, after leasing eight loss-making state stores and making them so profitable that she now employs about 1,000 staff and is reputed to be a millionairess in local currency terms.

While thousands of factories mainly in Liaoning and Heilongjiang have issued bonds to their own workforces (the funds from which have been used for capital investment), an increasing number of companies is turning to Shenyang's bond markets - it now has three - in a bid to raise funds from the public.

These remain a far cry from stock markets as we know them in the West, but show signs of being successful in tapping private savings to fund capital investment in state sector factories that have been starved of funds for decades.

Officials both in Shenyang and Peking continue to talk of the developments in Shenyang as an experiment, but with 26 cities following suit nationwide, it appears likely to set a pattern for invigorating industry nationwide.

A price paid for the region's massive industrial development has been pollution on an alarming scale. Hundreds of cyclists don face-masks to ride to and from work. But officials in Shenyang, Liaoyang, Anshan, Changchun and Harbin all insist that great progress has been made in cleaning up the environment. Evidence of such efforts is hard to find in and around major urban centres.

Literally hundreds of petrochemical plants, power stations, textile factories and steel and iron foundries pour effluent directly into local rivers, and belch smoke in all colours into the atmosphere. An acrid pall - part industrial and part domestic from the coal fires still used for heating and cooking in many urban homes - hangs low over every city from early in the day.

If claims are accurate that factories now filter out 60 per cent of the dust they emit, and that the majority of homes now use liquefied gas for cooking and heating rather than coal, then one can only boggle at the level of pollution that must have existed less than a decade ago.

As the region now braces itself for the long, grim winter which will see temperatures plunge to minus 30 degrees Centigrade, it is clear that there is little that is glamorous or charismatic about this area or its people. But there is a sense of dignity in the knowledge that they play an indispensable part in the country's economy.

Areas like Guangdong, or the Yangtze Delta area behind Shanghai may attract most of the news attention, and the lion's share of foreign interest, but there is a confidence in the far North-East that their pulse is the one that determines the pulse of everywhere else in China. It is borne out of a conviction that the true measure of China's socialist revolution will always be there, and that their definition of Zhao Ziyang's "socialist commodity economy" will determine that for the country as a whole, and probably also whether it is successful or not.

In the square at the heart of Shenyang there still stands a statue of Mao Zedong, proud and pointing the way forward. Mao's ideas may be discredited in many parts of China today, and they may have very little practical relevance even in the North-East, but it is here that the continuity of China's Revolution is perhaps most convincingly felt. Statues of Mao may have been demolished in recent years in other parts of China, but in Shenyang he is likely to stay.

David Dodwell

Shenyang's bond markets have attracted the attention of financial reformers

Bond markets

Masses of investors

MR LUO ZHENZHENG, deputy head of Shenyang's bustling bond market, would not at first sight be taken for one of the architects of China's more radical experiments in financial reform - perhaps because of the high-collared blue Mao-jacket that was once a symbol of anti-capitalist egalitarianism.

"The market is different from Western countries," he warns. "Enterprises sell shares to the society, but prices are not influenced by their profits or losses. What they sell is something more like bonds, where they get back their money, plus interest, after a fixed period of between one and five years."

The warning is important, but less so than two years ago, when Peking gave its tentative blessing to enterprises issuing bonds first to their workforce, and more recently to members of the public. It may only be a matter of time before true shares start being traded - if only experimentally on one of the three bond markets in Shenyang that have attracted the attention of financial reformers countrywide.

Since Meng Tie, Mr Luo's boss, opened Shenyang's bond market in August last year, more than 50 bonds have been issued by a total of 13 local companies, raising almost Yuan 1bn.

The latest bond, in August, was issued by Liaoning's Automobile Industry Corporation. The issue, for Yuan 20m, was the company's fifth. Interest on each bond, which had a face value of Yuan 50, was a slim 2.4 per cent. But what made it a sell-out was the offer of an array of prizes to bondholders in a lucky draw just a week after the date of issue.

Such "lottery bonds" are by far the most common in the Shenyang market, accounting for 40 of the 50 issues so far mounted. The prizes in the lottery cost the automobile corporation the equivalent of an extra 6.2 per cent in interest.

The habit of issuing lottery bonds has also set a pattern for trading in most of the bonds on the market. The issues have up to now been complete sell-outs - evidence of the substantial savings of even the most lowly urban workers in China, and of the attraction of winning prizes ranging from new apartments to televisions, washing machines, refrigerators and bicycles.

Once the lottery is over, and prize-winners announced, there is a secondary rush in trade. Disappointed losers tend to cash in their bonds at a price of between Yuan 40 and Yuan 45. The loss is regarded as modest, given the chance of winning prizes worth Yuan 5,000 and more. Winners tend to hang onto their shares as a long-term investment.

The fall in price after the lottery is over gives an opportunity to investors to get bonds that offer a substantial interest rate return. A one-year Yuan 50 bond, like the automobile corporation issue, bought at Yuan 45 and offering interest on redemption of 2.4 per cent, offers investors a gross return of almost 16 per cent.

Mr Luo says that after this second wave of trading, bonds then tend to be held to redemption. It is yet to be seen how the market evolves, but with new and larger corporations - like the massive Anshan steel complex - now considering public bond issues, the volume of business appears set to rise rapidly in the year ahead.

There are 26 cities in China now with bond trading centres like that in Shenyang, according to Mr Ren Junyin, deputy secretary-general of the People's Bank in Peking.

"Shenyang has advanced far ahead of others in terms of the experiment in bond markets," says Mr Ren. "The city is prominent among the country's 27 centres for financial experiment, but even so it is still at a very initial stage."

There can be no doubting Shenyang's pioneering position - quite apart from the renown won by issuing "yellow card" warnings to seven deeply indebted factories, and by making one of them bankrupt.

According to Mr Zhu Jiazhen, vice governor of Liaoning Province (of which Shenyang is the capital), efforts to invigorate the province's moribund state-run industrial sector include the decision to lease out more than 4,000 small companies, with the lessees taking full responsibility for losses or profits.

Some 20 ailing companies have been auctioned, and almost 10,000 have been "horizontally linked" with profitable companies that will in future be committed to upgrade efficiency and productivity, and retrain workers to manufacture goods that have a readier market than those currently being produced.

Apart from the 13 companies that have issued bonds to the public, 323 have issued shares to their staff to raise funds for capital investment.

"We are trying to make people 'go upward' and get rid of egalitarianism, and to give pay according to work," says Wu Disheng, the Mayor of Shenyang. "The problem is that many people don't understand competition, and there has been interference with reform."

Interference there may have been, but with current signals from Peking, this may soon be something of the past. Mr Luo may still sport his Mao-jacket, but it is tempting to suggest that there is nothing much else left of Mao's heritage in his attitudes, or in bustling places like the Shenyang bond market.

Mao himself may be turning in his grave, but if the enthusiasm of Shenyang's emergent investing class is any indication, he is turning alone.

David Dodwell

Heilongjiang, nearer to Siberia than Peking, is a centre for cross-border deals

Harbin, the capital of Heilongjiang province

Shutters lift again on trans-Siberian trade

FOR HEILONGJIANG, closer by far to Siberia than Peking, the recent improvement in Sino-Soviet relations has allowed the discreet reappearance of cross-border trade.

"The economic benefit is not so large," says Tian Jingchiu, vice-president of Heilongjiang's Foreign Trade General Corporation which specialises in trade with the Soviet bloc, "but the social benefits are very great. Production has been promoted, and shortages in China have been reduced."

At just SwFr 52m in the first nine months of this year, the barter trade counts for very little against sales into the world market worth $600m last year. But as a symbol of the thaw in relations between Moscow and Peking, and of increasing provincial autonomy to conduct its own cross-border trade, the trend has excited close interest.

Trade between Heilongjiang and Siberia has been recorded for over 300 years, focussing initially on the export to Russia of tea, silk, soya and alcohol, and on the import of furs and iron and steel products.

As Imperial Russia began to manoeuvre at the end of the 19th century to grasp control of what was then called Manchuria - most of all to secure a warm water port for its navy in the Pacific - so the region gained even greater significance in Moscow's thinking.

Russia's own revolution, followed by the period up to 1945 of Japanese colonisation of the region, brought the shutters down on trans-Siberian trade, but gave Harbin, Heilongjiang's capital, China's only large White Russian community.

Even today, the city has a strong Russian flavour - with Russian churches, many Russian-designed buildings, and some notable Russian restaurants dispensing caviar and vodka, along with dishes found almost nowhere outside Eastern Europe.

As trade links have begun to be rebuilt in the past five years, there is a caution rooted in numerous recent memories of Soviet exploitation. Many recall how Soviet troops sent into Manchuria in 1945 to "liberate" the area from Japanese control literally stripped its cities bare. Factories were dismantled and transported to Eastern Europe. Even furniture was bundled onto trains and transported across Siberia to the West.

Still more recall Soviet efforts to dominate the economy in the wake of China's own Communist Revolution. In the 17 years to 1966, when hostilities brought trade to a grinding halt, three border crossings were opened up to facilitate trade.

Even today, academics at the Academy of Social Sciences in Harbin insist that improved trade relations cannot be consolidated until the "three obstacles" to improved diplomatic relations are cleared. These are the withdrawal of Soviet troops from China's land border, the withdrawal of Soviet troops from Afghanistan, and the withdrawal of support for Vietnam's occupation of Kampuchea.

A controversy was aroused last year in the Academy - and nationwide - because of publicity given to a paper by two academics that highlighted opportunities for enhanced economic co-operation between Heilongjiang and Siberia.

The paper, which talked of the border town of Heihe (which is still not open to Western visitors) becoming Heilongjiang's equivalent to Shenzhen, Guangdong's dynamic special economic zone neighbouring Hong Kong, focussed on the complementarity of the economies of the two regions.

Siberia, it said, was bursting with power-generating resources, but was short of agricultural products, light industry and manpower. Heilongjiang, on the other hand, is in urgent need of more electric power, and has an abundance of agricultural staples like grain and soya.

The current official position appears to be that no dramatic improvements can be expected without a major shift in Soviet foreign policy, and that any Russian decision to speed development of Siberia without an accompanying commitment to ease relations with China whould be seen as tantamount to a resumption of hostilities.

At the Foreign Trade General Corporation, Tian Jingchiu insists that such grand diplomacy has little impact on his daily life. "We are just businessmen," he says.

From 1984, when trade resumed in earnest, two-way sales amounted to SwFr 26m. It is expected to pass SwFr 55m this year, but a long-term growth trend appears hard to predict.

Main imports from the Soviet Union's Far East Trade Corporation are timber, steel, cement and fertilisers as well as consumer goods like fish, refrigerators, pianos, typewriters and motorcycles.

In return, the general corporation sells grain, soya, pork, beef, apples, tea and furs as well as textiles and garments, thermoses and torches.

Unlike other provinces that have counter-trade links with the Soviet Union, these deals are negotiated locally and profits stay in the province. Peking sets the framework for this trade, and also keeps control of trade with other countries in the Eastern Bloc.

The current liberalisation of economic policies in both Moscow and Peking has raised hopes in Harbin that trade is set to grow strongly in the near future.

On the other hand, so much technology and investment is being sought from the West, and hard foreign currency is so preferred to the more cumbersome entitlements of politically-equalised counter-trade, that it is probably destined to remain at the margins even of a province like Heilongjiang which neighbours the Soviet Union. Glasnost or no glasnost, the province will think twice before snuggling up too close to Siberia.

David Dodwell

Tianjin's mayor

A man on the fast track

MORE THAN most Politbureau members, Li Ruihuan has been responsible for building the new China. As a carpenter, he worked on the Great Hall of the People, the Chairman Mao memorial building and Peking Airport.

The earthy Mr Li has made his political name as Mayor of Tianjin, a major industrial centre about 120 km from the capital, but has long been enshrined in Chinese lore as the hero of a popular film, the Young Luban, which traced the 10-month construction of the Great Hall on Tiananmen Square.

Unlike most senior party officials, Mr Li is neither afraid of personal subjects nor of a joke. He noted that the Chinese President, Li Xiannian was a carpenter. "I told President Li that in party affairs he is the leader, but I am the better carpenter. I can make a better chair."

Mr Li is fortunate that his seat of power, Tianjin, is far enough away from Peking for him to be left to get on with his plans, but close enough to call in senior leaders to show off the city's achievements. Deng Xiaoping has visited several times and liked what he saw, while Wan Li, a vice-premier, has been a political patron for many years and oversaw several of the construction projects on which Mr Li worked.

Appointed to the Politbureau last month, Mr Li, 54, says the position has given him a greater sense of responsibility. "I feel that there is a lot of responsibility. My focus is still Tianjin and the people of Tianjin. I think people will look to me to produce more."

He still drinks tea from an old jar in the manner of a factory worker and his gravelly voice, made coarse by chain-smoking, gives him a been-there-and-done-that edge. Mr Li is very conscious of public opinion and of public relations. He must also be aware that, by Chinese standards, he is on the fast track to very high office.

"If you compare the old veterans to Zhao Ziyang, you can't really call him young because he is nearly in his 70s. You can only say that he is relatively young. We do need to pay more attention to younger people. How old was Lenin when he died? 53 or 54?"

As a self-conscious man of the people, Mr Li has occasional get-togethers with the masses. At such a meeting last month he was told of concern about rising prices, housing and a new but faulty gas system. According to Mayor Li, even if there are 10,000 good reasons for introducing price reforms, you cannot force such changes on a people who do not want them.

"We have to do public relations work. Eventually the masses will accept the price reforms. This is a very complicated task," he admits.

Li Ruihuan obviously has a talent for judging the shifting political winds. In 1964, he wrote an article for the magazine *Chinese Youth*, praising the thoughts of Chairman Mao Zedong and discussing the topic of the day, "Dividing one into two." Yet even he was criticised at the start of the Cultural Revolution in 1966 as a "capitalist roader" and spent a few years in "a large garage."

Another joke? Mr Li explains. "I was such a big capitalist roader that I had a large garage to myself." He returned to public office in 1973 as a deputy chairman of the Peking trade union committee, and became deputy mayor of Tianjin in May 1981 under Hu Qili, now the head of the party's secretariat. A year later, he was promoted and began a campaign to beautify the drab city.

A Tianjin taxi-driver says Mayor Li had improved life markedly, and a factory worker reckons he has been the best mayor in the city's history, though an academic complains that Mr Li is more interested in big, eye-catching projects than in less obvious but still important areas such as higher education.

"I have been to several other countries and being a mayor there is not the same. If you compare me to a company official I am the both the chairman and the general manager. Here I am responsible for everything. My utmost job is to know the people and to serve the people."

Robert Thomson

Tianjin

Dreaming of New York

WHEN THE Tianjin Government invited residents to whinge about the city, a newly-installed gas system proved to be the bane of most people's lives. The citizens complained that the new-fangled gas was capricious and some preferred the old, dirty and reliable coal system.

Chinese leaders often cite Tianjin, 120 km east of Peking, as a model of urban development. The city has renovated older buildings, improved its road system, attempted to overhaul elderly factories and built a sound infrastructure for foreign investment. City elders are energetic, open-minded and willing to experiment with reform.

But in the same week that Tianjin announced the most ambitious housing reform problem of any large Chinese city, residents were given pork ration coupons and assured that the Government would curb inflation, which, along with the gas, matters most to ordinary Chinese.

Adapting to the changing China has not been easy for its citizens in the past year. The new gas system seemed like a good idea and price reform is necessary, but the problems that both have brought have prompted residents to think again about change. The editor-in-chief of the Tianjin Daily, Lu Si, says that most letters to the paper urged the Government "to control prices to make them stable."

Mr Lu appreciates that market reforms mean price fluctuations and has been telling his readers that "only more reform can solve the problem. Most of the Chinese people know that only reform can save China. The old ways, the old methods and the old economic structure must be changed."

Tianjin, with a long history as a foreign trading centre, has much in need of change. Older industries date back to the turn of the century, and many factories have antiquated equipment and management, while the city is in danger of losing its title as the country's third largest industrial centre.

An economics professor based in Tianjin says that industrial output increased by about 8 per cent this year, but in Suzhou and Wuxi, in Jiangsu province, the rise will be more than 20 per cent, and the two cities are closing in quickly on Tianjin. "We are very good at spending money but not very good at earning it."

Most Tianjin officials say that Chinese and foreigners tend to overlook the city, which is shadowed by Peking, and do not appreciate its current contribution to the Chinese economy or its potential. Zhang Zhaoruo, director of the foreign trade office, when asked what the city could do to lift its profile, laughs and says: "You tell me."

Zhang admits investor confidence was shaken by the forced resignation in January of Hu Yaobang, but he has noticed an improvement in recent months. He expects total investment for the year to be lower than last, but claims that more contracts have been signed this year and the 1986 figure was inflated by several major hotel contracts.

The Tianjin Hyatt has struggled to keep occupancy around 47 per cent, and with the opening of the plush Crystal Palace earlier in the year and, more recently, the Tianjin Sheraton, profits will be hard won by foreign operators. Rather optimistically, Zhang Zhaoruo hopes foreign business people will live in Tianjin and drive to Peking to work when a super-highway is opened in 1990, cutting a painful three-hour struggle to a one-hour drive.

To complement those ambitions, the municipal government will allow foreigners to pay about $150,000 for a 30-year lease on a tract of land on which they can build their dream home in Tianjin. Mr Zhang explains: "The Government will provide the infrastructure, and the foreigners can build whatever they like. You can then sell the lease to others. We think foreigners will be very interested in such a method."

Foreign business people still find that bureaucracy gets the better of many good ideas, so Tianjin has established a foreign investment service centre to house the relevant departments. Gao Luan, the centre's deputy director, says that foreign partners sometimes had to visit 35 different offices to get approval for a project.

Housing reform for local Chinese will not provide the masses with dream homes, but will be politically sensitive, as rents will be raised and vested interests bruised. Tianjin's mayor, Li Ruihuan, argues that the "commercialisation of housing is necessary because the current housing system is in a blind alley and must be reformed."

The plan is to increase rents sharply, particularly on apartments larger than the standard two rooms and a sitting room, so that purchasing a home becomes a more attractive proposition. The municipality will also use the Yuan 5.2bn ($2.2bn) that Tianjin's 8m residents have deposited in state banks to fund an expanded construction programme and sell standard flats for about Yuan 15,000 ($4,000).

Mayor Li wants Tianjin to become China's New York, with Peking the Washington. He would like to concentrate on large-scale high technology projects on which the upstart cities such as Suzhou and Wuxi cannot afford to embark. "Aeroplane building and automobile manufacture – these other cities can't do that. We have to make people more aware by raising the quality of our products."

But the Mayor, who prides himself on being a populist, is aware that Tianjin residents cannot be pushed too quickly to change, and is determined to get the gas right and improve the quality of housing so that reform does not become a byword for sacrifice or austerity.

Robert Thomson

An economic artery, forever on the verge of a coronary

Glitter of Shanghai survives congestion and decay

EVERY DAY 1m people swarm across the intersection of the Nanjing and Xixang roads in downtown Shanghai.

Whenever you go, all the 1m seem to be there too, half trying to enter the Number One department store and half struggling to get out. You go where the crowd current sweeps you rather than where you really want.

The surging throng moves faster than the solid, crawling lines of cars, trucks and buses whose drivers relieve the frustration of going nowhere by leaning on their horns and revving their engines to belch more pollution into the air.

This is Shanghai: Energy, industry, culture, the fading remains of a colourful, colonial past as one of the world's great seaports. But above all people - more than 5m squashed into the city proper, and up to 12m if one includes the suburbs and satellite cities.

Shanghai is a main economic artery of China, perhaps even the heart, and it is suffering the effects of chronic congestion. Yet the imminent coronary thrombosis never quite materialises.

The official statistics reflect part of the cost of the gradual collapse of the infrastructure in what was once one of the world's top three or four trading ports.

The local GDP slid from Yuan 18bn in 1985 to Yuan 17.5bn in 1986 and an estimated Yuan 16.5bn in 1987. The average local inflation rate for 1986 was 6.7 per cent, but in the first 10 months of this year the average rate was 8.5 per cent. Wages increased by around 13 per cent in each of the two periods.

But the youngsters who gather in knots along Shanghai's historic waterfront, The Bund, to practise their English and engage any and every foreigner in conversation are quick to dispute these figures.

"Sure, our wages are going up but prices are going up faster," says an earnest young factory worker who probably tunes in to the Voice of America station. A BBC World Service devotee - they speak more clearly and read from good books - agrees. "The official figures always show incomes higher than prices, but when you go shopping it is not so."

The answer lies in what people want to buy and in the rapidly widening income differentials as more workers get bonuses - often paid on demand rather than being linked to productivity. Local exports will probably total only $3bn in 1987 compared with $2.8bn in 1986. Yet locally consumed imports have jumped by nearly 50 per cent from $650m to $950m in the same period.

The volume of retail goods sold by the end of October this year was 16 per cent higher than the same period last year while savings in the banks over the same timescale rose by 29.4 per cent.

So Shanghai is producing less while its people are earning more. Those who contain their lifestyles and put their bonuses in the bank are getting richer, but the young people who want to spend their money on consumer durables and luxury-imported goods find prices are outstripping wages.

The young do not care too greatly about the implications of this. Shanghai has always had a glitzy side and the Shanghainese like to feel they are leaders of fashion and style. Like many Chinese they are prepared to pay a substantial premium for a Japanese refrigerator or washing machine even though the locally-made products are now (nearly) as good.

A young man says he is prepared to pay a full month's salary or more on a jacket, but it must be really good as he may not be able to afford another for five years. "And it would need to be obviously fashionable," he adds, inquiring whether his leather coat would be up-to-the-minute in the West. (It would but almost certainly will not be in five years). His girlfriend's Day-glo sweater, purchased for "too much" from an independent stallholder in the free market is, on the other hand, poorly made and it shows.

The World Economic Herald, based in Shanghai, is prominent in the city's current debate about its future direction. "Increasingly, intellectuals support the view that we should concentrate on the tertiary sector - banking, insurance and tourism - rather than the industrial sector," says Mr Zhu Xing Qing, deputy editor-in-chief.

In fact, this used to be a highly profitable sector for the city, generating about 40 per cent of local GNP in the 1950s. "Then we had 30 years of wrong guidelines when we tried to turn our consumer city into a producer city by concentrating on industrial development," says Mr Lu Hexiang, deputy chief of the city's long-term planning department.

"During the Cultural Revolution the tertiary sector slumped to only 17 to 21 per cent of our local GNP," he adds. The level is now 28 per cent and the goal is to get up to around 30 per cent by 1990.

But whichever development path Shanghai takes, it is unlikely to lead anywhere very fruitful unless the enormous infrastructure problems can be ameliorated. The city's transport services - the airport, the harbour, the railway - they are all malfunctioning.

"We do have very severe problems and our people suffer from very poor housing and serious pollution. This affects our development and inhibits further opening to the outside world and the attraction of more foreign investment," Mr Lu admits.

Last year the civic leaders outlined a range of ambitious projects: an eight-mile underground railway system, an airport extension, a new bridge across the Huangpu River, a water purification and sewerage system, a new telecommunication system, and the completion of a desperately needed new tunnel under the river.

"The tunnel is nearly finished but we have major difficulties in other fields. We estimate that solving the transportation problem alone will cost Yuan 40bn because of so many years of neglect. Local government cannot borrow such huge sums so we must depend on central government support for our plans," says Mr Lu without delving into the known lack of love between Shanghai and Peking, which has always bled the city of its huge trade and foreign exchange earnings.

Negotiations for financing for the underground system were dragging on last year and are still dragging on. "We have to conclude these talks in 1988 or it will never get built. Britain, France and Italy have offered loans but with conditions tying us to their technology. That is why we are still looking. We would really like a World Bank loan," Mr Lu says.

Meanwhile, Shanghai has pulled back from its rapid programme of hotel development. The city will soon have as many hotel rooms for foreign tourists as Hong Kong but no traffic, parking or shopping systems to go with them.

The few glittering attractions such as the Jade Buddha Temple, the Jing'an Temple, and the charming old town with the Bridge of Nine Turnings (zig-zagged because evil spirits cannot turn corners) and the Huxinting Teahouse, are all difficult to get to through the traffic and seething with visitors. The city's great waterways remain almost wholly unexploited for tourists.

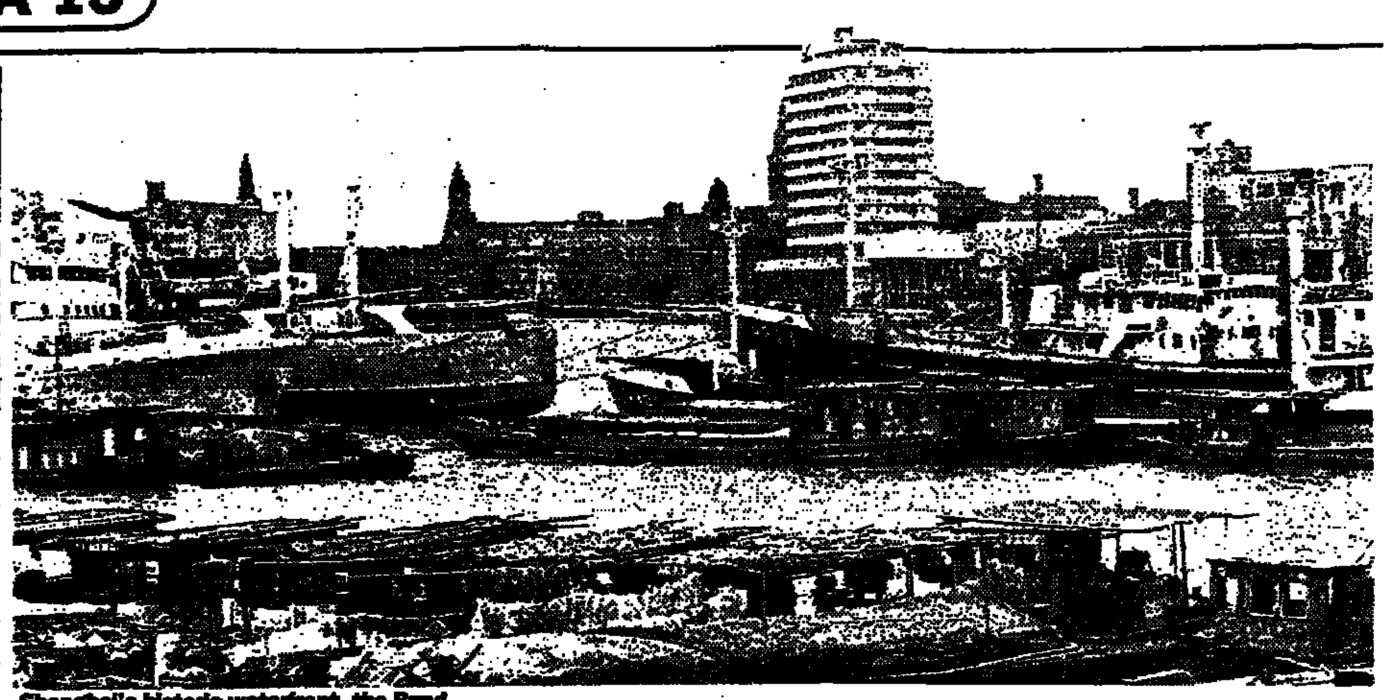
Yet, despite the legion of problems and the air of decay over much of its once grand architecture, Shanghai remains a great city with a romantic allure for visitors. It is partly its cosmopolitan history, with the British and French concessions still clearly identifiable, the history of the Opium War and the opening of Shanghai as a Treaty port, the image conjured up by adventurers in the 1920s and 1930s, later glamorised by Hollywood, but also the fact that the city is at the centre of things.

Shanghai was China's capitalist heart, it was where the Communist Party was founded and held its first party congress, support for the excesses of the Gang of Four was centred here during the Cultural Revolution, student protests were larger and more prolonged earlier this year in Shanghai than anywhere else in the country.

It is a city of strong opinions whose people want to be at the forefront. Whether the cleverest people come from Shanghai or come to Shanghai remains as much a matter of debate as ever, although now the young argue about it in smart new coffee bars where the latest Chinese craze - real coffee - is available.

But some things, like the traffic jams, never change: the ageing jazz band in the coffee lounge of the Peace Hotel works through its repertoire each evening. It is still slightly out of tune and seriously out of tempo. And it still packs them in.

Robin Pauley
Asia Editor



Shanghai's historic waterfront, the Bund

McDonnell Douglas joint venture

Each side blames the other

THE SCHEDULE for greater Chinese involvement in the production of parts for McDonnell Douglas MD-82 passenger aircraft being assembled in Shanghai has been seriously delayed, with each side blaming the other.

Mr Liu Yi, vice-president of the Shanghai Aviation Industrial Corporation, says that under the contract signed with the US aircraft manufacturer in 1984 all components for the first three jets produced will be shipped to China from McDonnell Douglas plants in Long Beach, US, and Italy, and the Shanghai operation will consist only of final assembly.

But from the fourth aircraft, due for delivery before the middle of next year, manufacture of some of the non-avionic technical pieces will shift to China. These include horizontal stabilisers, main and nose landing gear doors, nose fuselages and cargo doors. The contract specifies 30 per cent of the total value of the contract to be offset in compensatory trade, half in aviation products and half in non-aviation products.

"We first had to delay the phase for manufacturing parts to China from the fourth to the seventh plane due in 1999 and now it appears we have to delay it again beyond that. McDonnell Douglas keeps making excuses. First, it did not want to stop a Long Beach assembly line. Then it said some of the parts scheduled for us to make were fitted to US military aircraft and the US Defence Department had refused to allow these to be made in China. We talked to President Reagan's advisers and wrote to him in May but have no reply. It is all extremely disappointing."

But Mr Gareth Chang, president of *McDonnell Douglas* China, says: "We had no problem with the schedule to have China build more parts from No 4 on, but we told them that if they could not deliver the planes on time and if there were any penalties from the airline they would bear the responsibility. Faced with that, they agreed the No 7 plane was safest. With the quality issues and all the work and the training which needs to be done, beginning on No 7 is a very wise decision."

He denies the plan has slipped again beyond the seventh jet but agrees there have been many problems on both sides over the retiming of production of parts in China. It was this rescheduling which had caused the continuation of the Long Beach production line, and not *vice versa*.

The Defence Department was not concerned with commercial aircraft. But there had been a problem over the export of production machinery. This had been resolved.

But Mr Liu said the Americans had caused the difficulties, while China had faithfully kept its side of the scheduling deal. "McDonnell Douglas were three months late signing the contract, yet we still delivered the first plane on time in July. The second is test-flying now and will be delivered on schedule next month and the third in March," he adds.

The deal is for a total of 25 of the 155-seat MD-82 aircraft by 1991 with options for a further 15 if the market warrants it. The two sides calculate the value of the deal in different ways. The *US values it at $600m, while* China counts it as $1bn. Either way, the co-operative project is the largest transfer programme in China both in terms of technological content and value.

In spite of the differing versions on how well the deal is going, the Shanghai Corporation continues to make the nose and main landing gear doors for the McDonnell Douglas MD-80. More than 300 sets have been delivered and fitted to these aircraft which are manufactured in the US.

It was this arrangement, started in 1979, which led McDonnell Douglas to bid for a co-operative assembly venture in Shanghai, a contract which Boeing also fought hard to win. Boeing is still trying to negotiate a deal with Shanghai for the assembly of its Boeing-737 plane on the same site as the MD-82.

"McDonnell Douglas beat Boeing because its terms were more favourable, although we are not currently getting delivery of those terms. Boeing is still trying and is using a lot of propaganda in China to promote its new 757 aircraft," Mr Liu says. McDonnell Douglas, meanwhile, is also hoping to gain an expanding foothold in China and is discussing its ideas for the production of medium-range passenger jets to meet China's commercial requirements into the next decade. So competition between McDonnell Douglas and Boeing for new contracts is likely to be intense, with the Chinese likely to squeeze the maximum technological involvement out of both during the bargaining.

The MD-82s are being delivered to CAAC, China's national airline, which currently has more Boeing than McDonnell Douglas jets in its passenger fleet.

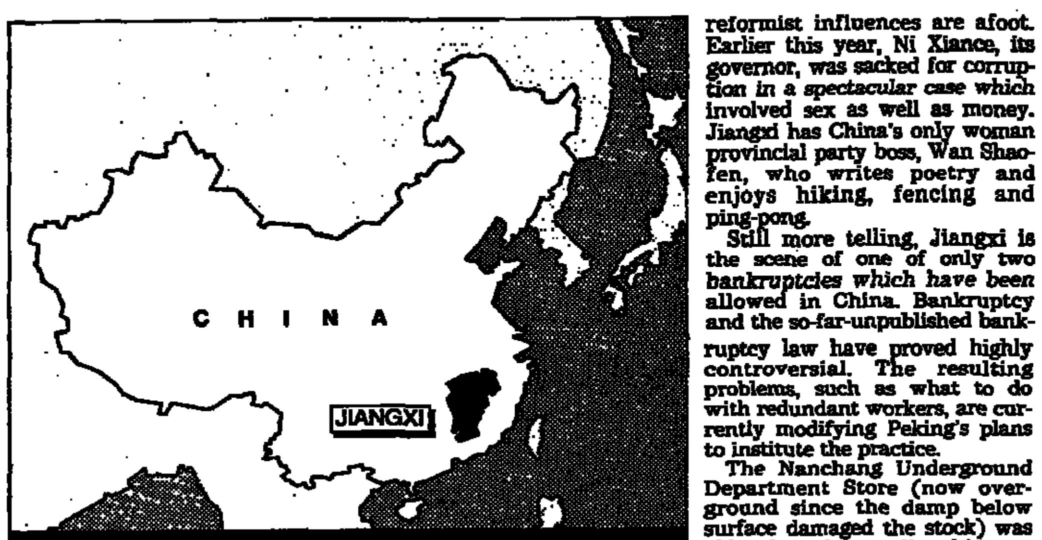
Although the Shanghai operation is a co-operative project rather than a traditional joint investment venture, the difficulties encountered in meeting original plans and expectations are typical of those which have plagued such initiatives in the past, particularly those involving automobiles. There have also clearly been personality clashes in Shanghai, another fairly common disruptive feature of bilateral ventures in China.

The one thing both sides in Shanghai can agree on is that the 3,000 Chinese workers and engineers have vastly differing pay rates to the 50 or so Americans. The Chinese have a basic wage of Yuan 150 ($40) a month and with bonuses that could rise as high as Yuan250 ($65) a month. "Some people do the same work as the Americans here and sometimes do it better. The Americans get $300 a day. We would have to work more than a decade to get what they get in one month," says a Chinese worker in the assembly hangar.

Robin Pauley

Jiangxi

Reformist influences afoot



Jianxi is a poor province but its revolutionary history has earned it special aid

ENSHRINED IN a glass case in the much-venerated August 1 Uprising Museum in Jiangxi's provincial capital, Nanchang, lie a neatly folded coat and tie beside a pair of wire-rimmed spectacles. They once belonged to newly appointed Acting Premier Li Peng's father. Li Shuoxun, a Communist, was killed by the Kuomintang in 1932.

In a gloomy hall of the museum hangs an idealised painting of a meeting of Central Committee members in 1927, one of whom was Li Weihan, father of newly-elected Politbureau member Li Tieying. These relics spotlight the bonds linking past and present in Nanchang, scene in 1927 of the Communists' abortive attempt to capture the city from the forces of Chiang Kaishek.

Today Nanchang is a sprawling and unglamorous town in the heart of a land of fertile rice paddies. From it a road runs down the centre of the province to Jian, rural birthplace of recently retired (but still powerful) conservative Politbureau member, Yu Qiuli. As far as the eye can see stretch fields and fishponds, tiny villages and clumps of trees.

Beyond the plain lie the mountains where, at Jingganshan to the west, the young Mao Zedong and his men set up their first "revolutionary base"

"Chairman Mao lives in our hearts forever," reads one slogan painted on a wall there. "Learn from Dazhai" reads another, surprisingly since this model commune was discredited in 1979 when supreme leader Deng Xiaoping embarked on economic reform. It was from Jingganshan that the Communists set out in 1934 on the Long March to find a safer hide-out.

Though typical in many ways of China's inland provinces, reformist influences are afoot. Earlier this year, Ni Xiance, its governor, was sacked for corruption in a spectacular case which involved sex as well as money. Jiangxi has China's only woman provincial party boss, Wan Shaofen, who writes poetry and enjoys hiking, fencing and ping-pong.

Still more telling, Jiangxi is the scene of one of only two bankruptcies which have been allowed in China. Bankruptcy and the so-far-unpublished bankruptcy law have proved highly controversial. The resulting problems, such as what to do with redundant workers, are currently modifying Peking's plans to institute the practice.

The Nanchang Underground Department Store (now overground since the damp below surface damaged the stock) was obliged to close earlier this year with debts of Yuan 1.62m after the provincial leadership cleared the step with the National People's Congress and the Supreme Court. It is now under the management of sparkling Miss Plum Fragrance Wu, who took on the lease of the premises. Since April, she has made a profit of Yuan 39,000 on a turnover of nearly Yuan 4m.

This case shows up the problems faced by the reformers. When retired conservative elder statesman Bo Yibo read about it (in a Japanese news agency item) he sent an investigator to Nanchang to find out what the provincial government was up to. In the event, he had to admit that the Nanchang officials had behaved within the law, but six months later they are still defensive. Party boss Wan faces similar interference from local conservatives.

Jiangxi is a poor province but its revolutionary history has earned it special aid. As many as 20 counties are regarded as "backward" – euphemism for poverty-stricken – but the Government has a three-year programme to provide them with adequate food and clothing, provincial planners say.

The Government in Peking, mindful of the loyalty of the "former liberated areas," has given Yuan 200,000m in subsidies. Party Secretary Wan's male colleagues allegedly sneer at her "women's welfare programme", but Peking's reformers support her.

In imperial times Jiangxi was quite prosperous, with healthy rice exports and the world-famous porcelain kilns at Jingdezhen. Today, with a population of 35m and a gross income of Yuan 32bn, it is hardly rich. Still, incomes have risen quickly since 1979, thanks to Deng's reforms.

The real hardship seems to be confined to outlying areas such as the heavily eroded eastern "red earth" region. Here the World Bank has given a $30m loan to improve agriculture with water and chemical fertiliser, but this has been enough only to cover a fraction of the area.

The province is still a rice exporter, and works hard at cash crops like sugar cane and oranges. In surprisingly well-wooded mountains (most forests in China have been destroyed by indiscriminate felling), timber and bamboo feed paper and simple furniture industries. Dajing village in Jingganshan not only employs its local youth making bamboo mattresses but sells bamboo to the furniture industry of nearby Anhui province.

Industry proper is more problematic. "Our biggest shortage is of talent," says Mao-suited director Wang Ying of Jiangxi's planning commission. Nanchang is starting up a steel tubing plant bought from the British Davy McKee, but its technicians are baffled by the 1980s electronic wizardry. "We're leaving in a fortnight and they still haven't a clue", says one visiting engineer.

Another British company is installing a brake seals plant in the remote, one-horse town of Yichan. "I couldn't find a piece of electric cable anywhere in the town," comments the engineer.

As elsewhere in China, planning is irrational, with the paper mill at Jingganshan bringing imported wood pulp many hundreds of kilometres from Shanghai and exporting the finished cigarette paper to Hong Kong. More logically, the province plans to instal a copper tubing mill from West Germany which will use raw materials from its rich copper mines at Guixi.

Jiangxi has no lack of mineral resources. Its deposits of tungsten, uranium, gold and rare earths are among China's largest, but transport is poor. There may even be oil in the hills, though the US company investigating there has not revealed its plans.

Foreign investment is steadily rising, with 68 joint ventures approved to the end of October this year and 23 already in operation. Total foreign investment contracted for so far is $163m, with $58m already committed. Of this last amount, $25m came in the first 10 months of this year, already topping the 1987 target.

The biggest joint venture so far is one with a Hong Kong partner for a TV plant. Under the contract, 30 per cent of the output is sold to Hong Kong, which produces the foreign exchange needed for components and profits. Like other provinces, hotels - in this case in Nanchang and the beauty spots of Lushan and Jiujang - have proved a magnet for investors. Jiangxi's next problem will be to find the tourists to fill them.

Colina MacDougall

Growing prosperity in Jiangxi's villages means new houses but peasants stick to traditional style

Jingganshan

Saying the right things

"THIS IS the cradle of the Chinese Revolution," said 38-year-old mayor Liu Jifu, waving his arms dramatically round the reception room in the hotel at Jingganshan. He paused for effect. "It's now a tourist resort, but it was the Communists' first revolutionary base."

Mayor Liu, in a natty black Western suit, did not look much like a revolutionary himself. "But I've asked to work here to devote myself to the needs of Jingganshan's people," he said. "Thirty per cent of them lost relatives as 'revolutionary martyrs'. It is a beloved spot with great potential."

Jingganshan was indeed one of the young Mao Zedong's hideouts, and its peasant population suffered badly at that time. But it has to be said that because of its fame, it will always be in the public eye. A young man seeking a speedy rise up the ladder of promotion could do a lot worse than apply to work there.

Mayor Liu must be typical of at least some of China's young officials. The college education, so fashionable in China these days, was gleaned at Nanchang's Communist Party school where he studied national economic management. His last post was as a legal officer at the county town of Jian, west of Jingganshan.

A forceful man, he has older officials eating out of his hand. What may be worrying is his lack of experience. In the meantime, he knows how to say the right things.

"Of course, I plan to settle here, and send my daughter to the local school," Mayor Liu revealed, drawing gasps of admiration from the assembled retinue of officials. One made an impassioned speech about the inspiration he drew from such self-sacrifice. The regard (or was it fear?) in which he was held locally was evidenced by the way the manager suddenly switched on the central heating to warm up the damp hotel as he arrived.

As local boss, Mayor Liu has considerable power to affect people's lives. "There are far too many administrative workers here," he said. "Following the recent 13th Party Congress, we plan to send more than 400 to the grassroots," a fate considered worse than death by many Chinese officials.

A certain lack of sympathy pervaded his speech. "Of course we'll make proper arrangements for them," he said airily. "They can provide guidance and advice on starting enterprises or raising fish. We'll have to wait till China's new enterprise law is passed next year, but then we may be able to amalgamate several departments."

He has ambitious plans for putting Jingganshan on the map. Isolation is an important bar to developing the tourist industry. He wants to take over a small airstrip 80 kilometres away and buy planes to run the county's own airline. One wonders also about his scheme to double to 10,000 the number of cattle grazing on the mountains.

Even a whizz-kid like Mayor Liu can be defeated by China's bureaucratic system. Jingganshan has at least eight beauty spots he would like to develop, but several of them are in nature reserves or mountain reclamation areas, and therefore under other organisations. The Jingganshan municipal government in theory has overall control, but "we anticipate problems." If he trips on any of those, the fall will be all the harder since the town is so famous.

Colina MacDougall

Population

Growth rate exceeds target

The lone child is very much the exception

"THE CHINESE don't really believe any longer that they can keep the population down to 1.2bn in the year 2000, their original target," said a programme officer at Peking's UN Fund for Population Activities headquarters. "They've started saying 'about' 1.2bn, and the projections suggest they're expecting a figure of 1.26bn to 1.29bn in that year. It could go as high as 1.3bn, and even reach 2bn by 2030."

Chinese officials are reluctant to admit openly that the situation may reach crisis proportions. Dr Liang Jimin, director of the General Office of the State Planning Commission, says he hopes that the 1.2bn target can be met, so the number may stabilise by 2030 at 1.3bn. This has begun to seem increasingly unlikely as the population growth rate is rising with alarming speed.

Peking's State Statistical Bureau held a sample survey on July 1 which revealed a population size of 1.07bn, growing this year at a rate of 1.48 per cent. It is on this basis that UNFPA has made its new projections. The Chinese want to stabilise the population over 50 years, but even if they can, UNFPA calculates that it may well reach over 1.5bn by 2025.

The country's ability to feed this hugely increasing population is doubtful. Already grain production has been stuck at a plateau of 400m tons for several years. The gains which China made over the period 1979-84 now look unrepeatable unless investment in the rural sector is much increased, and this may be simply unaffordable.

The 1987 growth rate seems unlikely to fall before the year 2000, if then. This makes Chinese hopes look increasingly unreal. The large number of women in the reproductive age groups and the social and economic pressures which undermine the "one-child family" policy all militate against them.

During the years 1962-75 the population grew extremely fast - in 1965, for instance, at over 2.8 per cent. These children are now producing their own offspring, and the bulge is unlikely to flatten until the end of the century. "China's first population growth peak was in the 1950s, and the second in the 1960s and early 1970s," says Dr Liang. "The children born in the second peak are now producing the third. We hope we can avoid a fourth, but we're not very sure."

Peking has been taken by surprise at the sudden rise this year which the sample census revealed. Growth in 1985 was only 1.1 per cent, and in 1984 1.08 per cent. "The worst problem is the rural couples who have two children," says Dr Liang. "There are 13 provinces now where for various reasons several children are allowed, for instance if both parents are themselves single children. All couples want to have a boy, and some want two. Nationwide, only 14 per cent of couples have one child."

In 1986 multiple births totalled 17.3 per cent of the total. These include China's ethnic minorities, who have special privileges. Last July's sample census revealed that the proportion of minority peoples in the total had risen from 6.7 per cent in 1982 to as much as 8 per cent now.

In the last few years pressures to stick to only one child have declined. Chinese records show that the acceptance rate for the "one child certificate" has dropped from 18.3 per cent in 1984 to just over 15 per cent in 1986. The certificate entitles parents to benefits and cash for the child, but in the booming rural economy these are now less meaningful. The peasants' current freedom to grow pretty much what they like also encourages more children, since more labour means higher incomes.

Earlier marriages are on the rise. The late marriage rate dropped from nearly 59 per cent in 1984 to only 39 per cent in 1986, Chinese figures show. At the same time, the number of women in the reproductive age group rose from 240m to 280m.

Making matters worse is the unreliability of Chinese birth control methods. "None of our contraceptives is any good," Jiangxi province family planning officials told the Financial Times. This was endorsed by UNFPA. "Forty per cent of Chinese women use the IUD, and Chinese-made IUDs are highly unreliable," their officials confirmed. "The pregnancy rate of women using the IUD can be as high as 20 per cent," says Dr Liang.

Chinese-made pills, used by over 6 per cent of women, carry a variation in dose which can be as high as 30 per cent. The acceptable norm outside China is 5 per cent. Chinese manufacturing equipment cannot produce a higher quality.

The State Family Planning Commission is working on an implant system which would give protection for five years, but it is still some way off.

Abortion remains the chief means of birth control, with numbers equal to half the live birth total, Dr Liang says. He denies that the Government policy is coercive. "We try to educate people," he says. The US Government has cut its contribution to UNFPA because of earlier reports of compulsory terminations.

The UNFPA programme in China has so far allocated $100m for the years 1980-89 which is being used for 35 projects. Five of these are factories producing contraceptives. One of these, at Tianjin, will make the "copper T" IUD type, which has a failure rate put at only 2 to 3 per cent.

But better contraceptives will only marginally affect the birth rate since abortion takes care of most "out of plan" pregnancies. Chinese neighbourhood and enterprise committees in the towns allot birth quotas which are tightly supervised. In rural areas it is easier to escape prying official eyes, though in any case the policy is less restrictive.

China appears to be pinning its hopes for population control on better education and publicity. "We try to persuade couples to think about the whole nation," Dr Liang explains. "Then most will volunteer to practice family planning."

But however the Government tackles the question, prospects for staying within its targets do not look good, and growing population numbers can be expected to threaten economic growth.

Colina MacDougall

Agriculture: dispersal of farm collectives has caused a problem

Grain shortfall will raise imports

GRAIN PRODUCTION simply does not pay in China, the world's largest grain producer and consumer.

This bald fact has dogged the Chinese economy for over 30 years, and is now pressing on Chinese policy-makers in the wake of stagnation in nation-wide grain production.

"The problem now is that consumption is increasing at a rapid rate, but production is going up only slowly," says a Ministry of Agriculture official.

In the early years of the Chinese Revolution a newly-installed Communist Party government reacted to an impending food shortage by imposing a state monopoly over the grain trade, and attempted to boost production by issuing compulsory production quotas. When the command system failed, an "agriculture first" policy was given lip service in the early 1960s, and appeared to be given some substance in the 1979 reforms, which ushered in the first significant increase in farmgate prices in over 15 years, and in effect put an end to collective farming.

Yet after an initial surge forward in grain output during the early years of the the 1980s, the benefits of the reforms appear to have run their course. Ministry officials now expect the 1987 grain harvest to reach about 400m tons. This is below the record of 407m tons achieved in 1984, and has set the stage for a sharp rise in grain imports, which some diplomats believe could reach 13m tons this year.

The stagnation of grain production raises a host of questions about China's ability to feed itself and to continue improving diets as incomes go up. China can use imports to supplement its own food production, but the scale of its food needs could put severe strains on the world market should China decide to buy, say, as little as 10 per cent of its food abroad.

The spurt forward in grain production earlier in the decade was deceptively easy. State investment in agriculture had never been particularly high. Yet under the old system of collective agriculture, which has now been discredited and dismantled, rural communes managed a high level of public investment in machinery, irrigation works and field construction, even though these may have been uneconomic under the then-current price structure.

When individual incentives were restored by dispersing farm collectives, peasant households began to make far more efficient use of available resources. More money was placed directly in the peasants' hands. This money helped to fuel a housing construction boom in the countryside, which in turn stimulated rural construction materials businesses.

> The world market would be strained should China decide to buy as little as 10 per cent of its food abroad

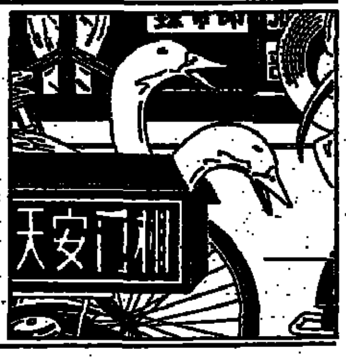
Surplus income was quickly spent on housing and consumer goods, and any extra was not to be invested in unprofitable grain production. This was to see its way instead into lucrative rural industries, ranging from process plants for agriculture products to simple machine shops.

The result has been a much needed exodus of labour from the fields, and a vast improvement in rural living standards. Village and township industries now account for some 21 per cent of China's industrial output. The output of these industries increased by 30 per cent last year alone. It is quickly catching up with the value of agricultural output, and is the principal source of cash for most rural families.

While this is mainly a good news story for China's 800m peasants, it has unfortunately been accompanied by a significant decline of investment in crop farming. More and more stories are emerging not only about the failure to expand irrigation systems but of the failure to maintain systems in place.

Irrigation ditches have become clogged and pumps broken. Irrigated land in China fell by over 2 per cent from 1985 to 1987 as local government officials lost the authority to requisition labour for public works construction. While the Government loudly trumpeted its "agriculture first" policy, and watched yields rise, direct state investment in agriculture fell from 12 per cent of national budgetary expenditures before 1978 to 5 per cent in the first half of the 1980s.

This loss of money to the rural sector was probably more than compensated for by the sharp increase in farmgate prices and by a vast expansion of the rural credit system. But dispersed into the hands of peasant households farming small, scattered plots of land, funds were not reinvested into agriculture, which promised a low return compared to the possibilities of small-scale industrial enterprises.



The average per capita housing for peasants has more than doubled since 1978 to 15.29 square metres in 1986. This, combined with the steady expansion of rural industries, and more emphasis on cash crops and aquaculture has led to a steady reduction of the planted area of grain. New land has been brought into cultivation, but it has been marginal land, rather than the best quality land.

The steady rises until 1984 in output appeared to make the Government overconfident. In 1984 the harvest was so successful as to strain the Government's grain storage capacity as well as its financial ability to maintain grain subsidies. Then in 1985 the Government suddenly scrapped a 30-year-old pricing structure for state grain purchases. The effect on average grain prices may have been neutral. But the change in pricing structure eliminated above-contract bonus pricing and had the effect of slashing prices at the margin for the most efficient food producers.

This, combined with a nationwide squeeze on credit and relatively bad weather, led to a sharp drop in the year's harvest.

Unlike in previous years, however, when problems in agriculture tended to creep up on the leadership with a sudden fury, the more open atmosphere in China has permitted the problem to be discussed publicly, and the Government has begun to adopt measures to correct it. One of the first steps came in late November, when new regulations were approved to strengthen the authority of "village committees," the remnants of the old production brigades. The aim is to give them the authority to organise labour brigades to maintain irrigation works and to rationalise field management so that machine plowing and pest control can be effective and economic.

The rationale for strengthening the village committees sounds amazingly similar to the original reasons given for collective farming over 30 years ago. It will presumably mollify conservatives who have always been uncomfortable with the agriculture reforms. Yet it remains to be seen whether the authority of village leaders can be effectively restored, and whether under the new atmosphere a collective decision to invest in crop farming can be sustained in the absence of an attractive economic return.

Given the current price structure, farmers may be better off to let investment slide. The Government has promised to raise its direct budgetary outlays for agriculture, but, says one official, "they keep saying this but they haven't done anything."

The Government is also hoping to improve the investment environment for farmers and is currently drawing up new regulations that would allow farmers to recoup any investment in land they pass onto another family for cultivation. This would amount in essence to new rules for the buying and selling of agricultural land, but past experience indicates that many peasants prefer to hang on to any land, even if they cannot cultivate it. Land brings a security that many peasants far prefer to cash.

In principle, peasants do not own land in China, but are only granted rights to farm it. Continued uncertainty over the future system of land use and ownership has discouraged long-term investment in land improvement. Even Chinese officials now recognise that, in the long run, agricultural investment is unlikely to rise much if producers have alternate investments that offer much higher returns.

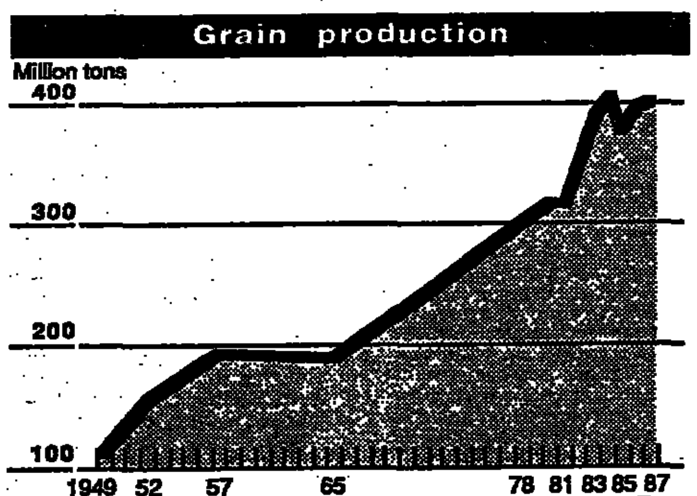
The Government is left squarely facing the blunt problem of agricultural pricing. The effectiveness of the price mechanism in China is plainly apparent in the case of cotton, in which China moved from being the world's largest importer in 1978, to its current status of a net exporter. When cotton production dipped in 1986, the Government raised prices, and production shot up by over 10 per cent this year.

Cotton, however, is closely tied to the foreign trade sector and the cash economy, where the Government does not have to raise subsidies. But the price of grain on the market in China is a social issue.

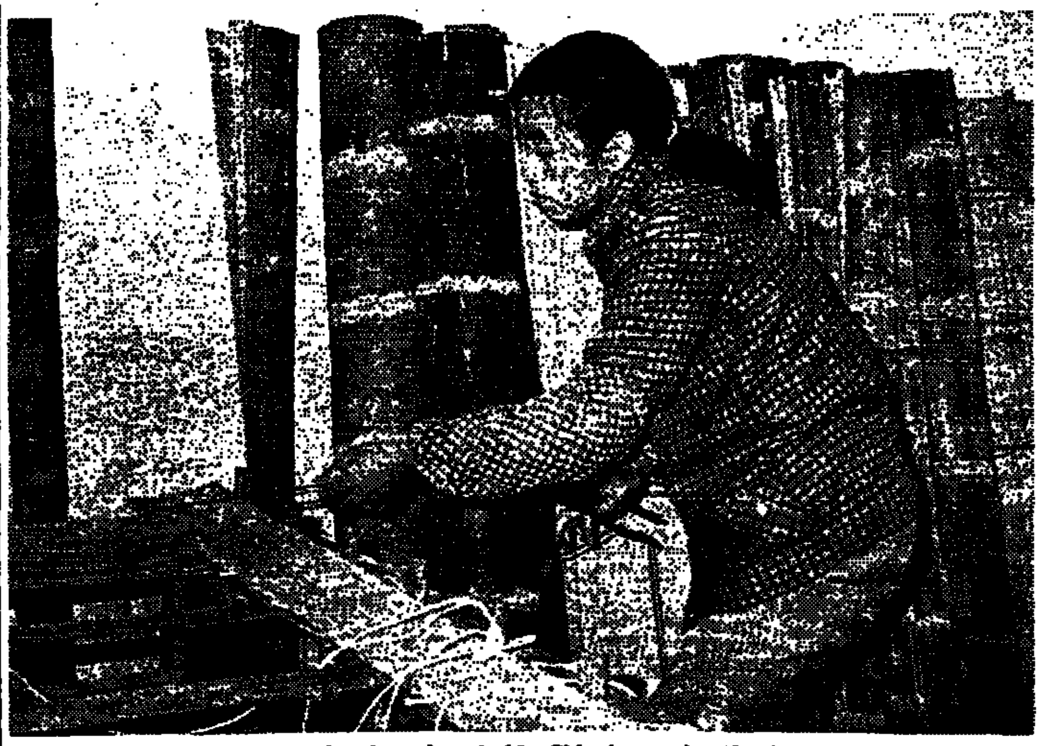
The Government managed the 1979 and 1982 grain price increases only by increasing subsidies to urban dwellers, so that the government procurement cost in the countryside is now well above the urban sale price. The root problem is that urban wages are too high, and that the Government must manage a further redistribution of income through the price mechanism.

China is now believed to be studying ways of raising grain procurement prices and passing at least some of the increase to urban consumers.

Steven Butler



Source: Ministry of Agriculture


The village bamboo industry has been boosted by China's construction boom

Village profile: Dajing

A quieter revolution

NESTLED AMONG the lush peaks of the rugged Jingang Mountains, in Jiangsi province, the village of Dajing could easily be mistaken for a kind of bucolic paradise, with its pure air, abundant water, and quiet surroundings.

A rambling country manor, restored and carefully preserved in the centre of the village, provides just the faintest reminder that Dajing was once at the eye of an epoch-making storm. During the Chinese revolution, nearly 60 years ago, Mao Zedong made his headquarters here and used the natural defences provided by the mountains to shield the first important revolutionary base.

Dajing is now in the midst of another kind of revolution, which began in 1977, when the village leadership moved surreptitiously to evade the tight strictures of state control over production. The village quietly divided up the land among farm households, a policy that was sanctioned only two years later by China's Government.

"We did it ourselves, on our own initiative, because we saw that the production team system of collective farming just didn't work," says Huang Zhongmin, the village leader. In the ensuing nine years, per capita income in the village has almost tripled from Yuan 135 in 1977 to Yuan 400 last year, while grain yields have nearly doubled to reach 1,550 kilograms per hectare this year.

These statistics tell a simple and very real story of increasing prosperity for the 27 farm households in Dajing, who are now able to afford televisions, bicycles and watches for the first time.

Yet even Dajing, a remote mountain village, clearly reflects the growing pressure on the Government to find new ways to boost the lagging agricultural sector. Household income in Dajing is well up and moving strongly forward, but only as more labour leaves the fields to earn money in industrial and agricultural processing industries.

In fact, Dajing's rice yields leapt forward in 1978 in response to management changes, and have since increased only slowly. Even more telling, the 94 per cent increase in unit yields has been matched by only an 86 per cent rise in gross yields, reflecting a slow - but significant - conversion of fields to cash crops and fish ponds.

Applications of chemical fertiliser fell by 60 per cent after mandatory government quotas were dropped. While this is not a national trend, and might well be justifiable for Dajing, it illustrates the sensitivity of farmers to price differentials, and the problems that only a partial decontrol of prices still pose.

It is true that whatever the Government does to farm prices does not matter much for Dajing in the short run, since the village produces little in the way of marketable surplus food. Yet it is equally plain that for Dajing, like villages all over China, investment in grain production is unattractive.

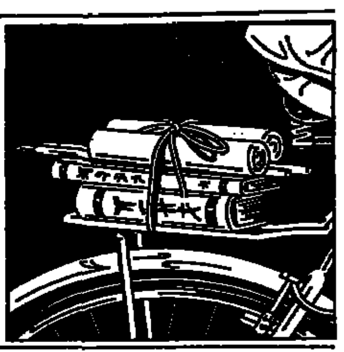
That is for Dajing residents, of course, a rather abstract point of view, since they have plenty to eat. China's construction boom has boosted the village's bamboo and timber industry, and the decontrol of domestic trade has brought a steady stream of buyers from all over China.

The village now manufactures everything from simple bamboo furniture to chopsticks, and profits from these industries have been responsible for a substantial part of the village's increased income. Put crudely - economic development in the form of rising labour productivity has finally arrived in Dajing and at least one promise of the Chinese revolution that began there some 60 years ago is at last bearing fruit.

Steven Butler

Writers are still subject to the party's fitful benevolence

Traditional culture gives best of the new writing



Ancient roots are being rediscovered by a new generation of artists and writers

WERE YOU to take a walk through any of Peking's bustling street markets on a crisp and sunny winter afternoon, your attention might well be caught by a ubiquitous book with a striking cover and a title which translates roughly as Painted Women of the Cinema Capital.

Better known in this part of the world as Hollywood Wives, it is currently a hot item for the enterprising market vendors who make their living by buying up stocks of popular works to resell at higher prices.

For those who cast their minds back to the rather ominous beginnings of 1987, the wide availability of foreign books of this kind, as well as the increasing diversity of domestic writing, may be something of a surprise.

The party's sudden expulsion of prominent intellectuals caused a sharp national intake of breath, as did its fierce condemnation of writers for presenting what it saw as the unacceptable face of freedom of expression. In its war on excessive Western influence, the campaign against "bourgeois liberalism" attacked specific literary targets and urged leading cultural figures to join in. The silence was deafening, but by mid-year an atmosphere of apprehension and despondency reigned in cultural circles.

Prominent among the campaign's targets was Liu Xinwu, editor of the journal People's Literature, who was suspended from his post after publishing a work which enraged official sensibilities (and sent the magazine's black market value up to 80 times the cover price). Ma Jian's skilfully written Show the Coating of Your Tongue or Emptiness, the offending work, is an account of a young photographer's travels through Tibet and includes graphic descriptions of incest and adultery in remote mountain communities.

The work is but one example of a recent and growing literary fascination with morbidity, eroticism and strange imagery. In fact, current fiction abounds in rotting corpses and odd couplings, breaching conventional canons of taste and testing official tolerance in ways which would have seemed astonishing even two or three years ago.

Strange new characters are appearing, too. Despite being hampered by fairly unexceptional prose, the principals in widely discussed works such as Wang Suo's *Half Flame, Half Sea* behave with an amorality and indifference to China's political fate which is an almost exact reversal of the values of the granite-jawed heroes of the 1960s and 1970s.

Invariably urban and as often as not jobless, they live by their wits in self-sufficient worlds of petty corruption and casual liaisons, the children of a dream that has left too many questions behind it.

Much recent official ire has been directed against the increase in eroticism and popular author Zhang Xianliang has once again come in for attack, this time for his Good Morning, Friends, a novel about secondary school students. The work was rejected for official publication, although highly abridged extracts from it circulated in the tabloid press. Questioned about his sudden unpublishability, Zhang made the sort of distinction Chinese writers have evolved into a fine art and commented quietly that his work had attracted "criticism but not trouble".

The latter was certainly what befell China's most respected author Liu Binyan, who for the second time in his career was thrown out of the party. A persistent critic of corruption and bureaucratism, Liu was accused of spreading "slanderous rumours" and of exposing the party's dirty linen in public.

In the spring, rumour illuminated with characteristic clarity the real minefields for China's writers, as word travelled round that the five forbidden subjects in literature were: pornography, the Cultural Revolution, the Gang of Four, Mao Zedong and the 1958 anti-rightist movement.

Not that anybody needed to be told. It was obvious enough that although the scope of fiction had broadened sufficiently to include widespread flouting of the first taboo - a Western import, after all - the subjective history of the recent past, recorded in the experiences of actual human beings, was not to be confronted. At least, not yet.

If much of the "new wave" fiction is characterised by an absence of heroes, other recent writing demonstrates that they have not been entirely forgotten. A spate of biographies and memoirs of the marshals and generals who led the Communist armies to victory has been a success with China's reading public. The army has found its way into a significant proportion of other writing too, although frequently with a realism which has disturbed critics.

The first work of its kind to appear in the People's Republic, Chinese Volunteer Army Prisoners of War, provides, despite its less than gripping title, a compelling account of the treatment of captured Chinese soldiers in Korean camps and of the general indifference of their own society to the maimed and disillusioned returnees. The work belongs to the new documentary genre which has been gaining ground, a reaction to the strong escapist tendencies of much popular fiction.

But it is the powerful revival of traditional culture, evident everywhere in the arts, which continues to provide arguably the best of the new writing. In the enigmatic rural worlds created by Ah Cheng, Jia Pingwa and Han Shaogong, the entrenched feudalism and superstition which Mao sought to destroy are described with an earthy realism.

Established older authors such as Gao Xiaosheng continue to use peasant characters to make wry comments on the system, but it is the generation now in their 30s who are reclaiming China's ancient roots with modern, individualistic voices.

This move towards primitivism in the arts may indicate an unwillingness to sieve through the ashes of the more recent past, but it is well to remember that Chairman Mao has been dead only a little over a decade. The disciplining of intellectuals this year has cast a long shadow over the literary world and illustrated once again just how much writers are still subject to the party's fitful benevolence.

Nevertheless, the battered survivors, vagrants and beggars who have crowded onto the literary stage in the last year or two seem to be pointing to the continuing emergence of a strong new literary tradition for China, one which in the coming years will issue its own version of the past.

Carole Murray

Hollywood Wives is currently a hot item

Pushing forwards by Yuan Yunsheng; Chinese ink on rice paper

Painting

Diversity of open door art

THERE IS a great feeling of excitement when the doors of such a giant nation as China creak open and the arts of such a rich culture burst forth.

Diversity and experimentation characterise "open door art", which in the last 10 years has blended China's artistic traditions with those of other cultures in a new and exciting way.

Take, for example, the work of Chen Dehong who uses Chinese calligraphy as the backbone of his painting. He takes the word for "horse" and combines its pictographic image with a Western use of composition and colour to express the character of the animal in lively and spirited brush strokes.

His depiction of a horse bursts forwards as a wonderful example of open door art full of energy and free of the fetters which have limited Chinese painting in the last 30 years.

For centuries the most important requirement of Chinese painting has been its spirit of vitality and rhythm, singled out by the art critic Xie He in his writings on art in the fifth century.

In Chairman Mao's day, after "liberation" in 1949, art was seen as a tool of the Revolution. Artists were strictly limited as to what they could paint and art was turned into a huge propaganda machine. Soviet Realism was particularly suited for this purpose and has left its mark on the arts in the form of revolutionary posters and large oil paintings glorifying peasant uprisings of the past.

Although full of revolutionary zeal, these works lack the true spirit of Chinese brush and ink painting through the centuries. That was almost stamped out during the Cultural Revolution (1966-76) when traditional painting was banned and labelled "black art". Like many others, the artist Yuan Yunsheng spent this period of his life looking after animals in a remote area of the Chinese countryside.

Since 1976 the lot of Chinese artists has greatly improved. Art colleges which were closed during the Cultural Revolution have reopened. Artists were reinstated and traditional painting revived. The "open door" policy, accompanied by political and economic reform, has given artists in China more freedom than at any time since 1949.

In the post-Mao period artists have explored new forms and ways of expressing themselves. Today they can paint whatever they want as long as they avoid the areas of eroticism and political criticism.

As the door edged open in 1976, drawing from a nude model was permitted in the Art College in Peking. In art colleges further south, nudity was permitted but only from the waist upwards. In the more distant provinces it was still forbidden.

Gradually, restrictions have been relaxed but not before a raging controversy surrounding the 1980 depiction of nude women in Yuan Yunsheng's mural painting at Peking's International Airport. At first, the authorities suggested that the artist should clothe the figures. He declined to do so. Then a curtain was hung over the offending section, which made matters worse because people were constantly peeping behind it. Finally, the nude section was boarded up.

Yuan Yunsheng left China in 1982 for the US, where he has lectured at Harvard and recently completed a large silk tapestry for the university. Had his airport mural been completed in the more relaxed atmosphere of the late 1980s, it might well have continued to see the light of Chinese day.

Through the "open door" a stream of Western influence has flooded to the most remote areas of the People's Republic and a small but steady stream of Chinese artists has made its way to the outside world. In 1979, there was only a handful of Western art books in the library at Peking's Central Academy of Fine Art. Today such books as Gombrich's *Story Of Art* have been translated into Chinese and the Zhejiang Art College boasts a collection of 200,000 Western art books and magazines.

Due to vastly improved communications and availability of material in the last seven years, Western art has had a tremendous influence on the younger generation. The result has been a fantastic variety of styles and experimentation of art forms. Abstract art, formerly banned, is now allowed. In the early 1980s there was wholesale copying of Western styles, such as surrealism. However many young artists are now rediscovering their own tradition, while incorporating Western ideas and art forms.

The recent clamp-down and student unrest earlier this year did not affect artists as much as it did the literary world. As in 1983-84 when the door closed slightly during the "spiritual pollution" campaign, artists waited for the storm to blow over. Now that the "open door" policy has been confirmed at last month's Party Congress, artists are confident that, within limits, there is relative freedom.

It is not so much a question of what is not allowed in the art world but of what is "not liked". The older generation of artists remains conservative and is still in charge. Abstract or avant-garde works have little chance of being exhibited in the major art galleries or exhibition halls where a strict hierarchy is observed and it is mostly the traditional works of older artists that are exhibited.

There is no art market in China, apart from that linked with the tourist industry. For the younger generation the chief means of showing work is through art publications. Since 1985 young artists have staged their own exhibitions and are responsible for financing these, but that remains a problem.

Many young artists look to the West for the chance to study abroad, to see original works of art and to exhibit and sell their works. There are no museums in China displaying a permanent collection of art from other parts of the world, nor is there any museum in China with a permanent display of modern Chinese art.

In the last six years, exhibitions of contemporary Chinese painting have travelled to the US and Europe. Until recently, these reflected conservative taste since Chinese officials were responsible for the selection, but now both artists and art experts are selecting and introducing modern Chinese paintings to the Western world.

One of the first Chinese artists to arrive in New York was Chen Yifei in 1981. His realistic works in oil then sold for approximately $3,000. This year Chen Yifei's most recent works in an exhibition at the Hammer Gallery in New York fetched a record $800,000.

The variety of open door art is enormous. There is no single school but rather a range of different styles drawing their inspiration from both East and West. One of the most exciting young painters in China today is the artist Leung Chuan, whose brilliantly coloured works of rice paper collage and mixed medium draw their inspiration from ancient cave paintings of Africa and Inner Mongolia.

Chen Dehong's new calligraphic works burst through traditional barriers with great spirit and energy, characteristic of the state of art in China today. Yuan Yunsheng contributes masterpieces of modern Chinese expressionism and his recent works in monochrome Chinese ink on rice paper show the variation of light and dark tones with a vitality of brush and ink so highly valued throughout the centuries in China.

The works of these three artists were exhibited in London for the first time this autumn with tremendous success, and it may well be that the Chinese will have as profound an influence on art as the Japanese have had on business.

There is a chance to see the range and variety of contemporary Chinese painting in an exhibition of the works of 20 Chinese artists at The Arts Club, 40 Dover Street, London W1 until Wednesday, December 23.

Caroline Blunden

Film

Attack on fifth generation

CHINESE avant-garde film director Tian Zhuangzhuang, best known for The Horse Thief, once said that when making films he had in mind "audiences of the 21st century".

When he next appeared at the Peking film studio to pick up his monthly pay cheque, he was apparently told to "come back next century". It was meant to be a joke, but the hostility of China's film establishment towards younger, upstart directors is real enough.

Earlier this year, cinematic conservatives were given a perfect opportunity to vent their antipathy when elderly leader Deng Xiaoping ordered the world of culture to purge itself of "bourgeois liberalism", an ill-defined virus that had supposedly taken hold throughout the country and even in the senior ranks of the Communist Party.

Shortly after Deng's call, Wu Yigong, the head of the Shanghai film corporation, in a nationally-publicised speech, castigated unnamed film-makers for having neglected the "concerns of the people". He declared pointedly: "I want to be a Chinese artist, not a foreign artist or a slave of the West."

Most observers read this as an attack on younger film-makers such as Chen Kaige, the 36-year-old director of Yellow Earth (1984). Yellow Earth is generally regarded as a watershed in contemporary Chinese cinema for its successful break with formerly rigid artistic and political conventions. Like a number of other films by members of the so-called "fifth generation" of Chinese film-makers to which Tian Zhuangzhuang and Chen Kaige belong, Yellow Earth was highly controversial at home but a hit in cinemas abroad.

These younger directors make only a small fraction of the approximately 130 films turned out annually by the Chinese film industry. The masses seem to prefer Kung-Fu pictures like The Magic Braid (1986), melodramas like Sunrise, or urban comedies like the recent Zhenzhen's Beauty Parlour, which told of a young private businesswoman's trials and tribulations in running a hair salon in the new China.

It does not take an explicit ideological campaign to make life hard for China's artists, who under the economic reforms face demands to be profitable as well as the perennial problems of political censorship.

But this year has been especially difficult. Even veteran director Xie Jin found himself faced with a censor's diktat. Xie's latest film, Hibiscus Town (1987), is essentially a critique of the Cultural Revolution (a movement, incidentally, which Xie had not long ago loyally served by directing such model revolutionary opera classics as On The Docks).

Originally, Xie had added a postscript to Hibiscus Town to the effect that political campaigns were a thing of the past. Unfortunately, the film was released during the "struggle against bourgeois liberalism". Deng Xiaoping's campaigns are never officially called "movements" (*yundong*), the name given to Mao's violent purges, but it was felt that Chinese audiences might take this final comment as an intended irony. Xie cut the postscript.

Meanwhile, Wu Tianming, the middle-aged director and head of the Xian film studio, who had helped to protect the younger film-makers, briefly came under a cloud. The prominent journalist, Liu Binyan, who had once written an article praising Wu, was accused in January of "bourgeois liberalism" and kicked out of the Communist Party.

Though Liu's "crimes" were unrelated to his article about the film-maker, Wu's enemies readily seized on the connection to make trouble for him behind the scenes. This stopped only when Premier Zhao Ziyang, now the party boss, said that just because Liu had made some mistakes, all of his articles were not to be faulted.

In September, Wu's new film, The Old Well, swept up four awards at the Tokyo film festival, including best film, best actor and a special critics' prize. Yet the most important cinematic event of the year has been the appearance of Chen Kaige's third film, The Schoolmaster. Fortunately, it was sent to the film bureau censors in August, by which time the political climate had cooled down: had it been submitted earlier, it might not have been passed.

The Schoolmaster is about a young man assigned to teach at a school in a remote mountain village during the Cultural Revolution. He sees that the propaganda-dominated texts are meaningless in the context of his students' lives and throws them out. Eventually, he is himself thrown out by the school.

Within this simple narrative, Chen has created a rich allegory about intellectual life and alienation in the People's Republic, and the film is as visually stunning as it is thought-provoking.

Linda Jaivin

Misconceptions about religion and the religious remain


A protest after the killing of eight Tibetans during riots in Lhasa in September

Omens from Tibet

AT THE height of the recent tension in Tibet, hundreds of pilgrims to Lhasa faithfully continued their circuits, clockwise as their religion demands, of the sacred Jokhang Temple in the centre of the city. At the same time, a police jeep did a circuit of the Jokhang, an anti-clockwise circuit.

In Taiyuan, the capital of Shanxi in the north, the head of the local religious affairs bureau is determined to convince me that Catholics are not Christians. The bureau has separate categories for the two, so they cannot possibly be the same.

And in Kashgar, on the silk road in the far west, where Han Chinese are outnumbered by Turkic-speaking Uighurs, Kasim Aysa, the religious affairs director, explains that he is both a Communist and a Moslem. He gets round the apparent contradiction because "I don't believe in Allah."

The Communist Party is proud of its recent religious record. It can justly claim that, compared with the repression of religion during the Cultural Revolution (1966-76), China's faithful have never had it so good. But misconceptions about religion and the religious remain, and were highlighted by the pro-independence protests in Tibet.

Tibet and Xinjiang are the two most volatile religious regions. Both are in the strategic far west, and would play a major role in any conflict between China and the Soviet Union or China and India. In both regions, religious tension is complicated by racial tension, and both religions, Tibetan Buddhism and the Islam of the Uighurs, have enough mystery and ritual to make the average Chinese bureaucrat, raised on a strict diet of dialectical materialism, decidedly uncomfortable.

Chinese officials seem to have been confused by the importance that omens – earthquakes and rainbows and the revelations of an oracle – played during the Tibetan protests, which apparently ended several weeks ago. *But foreign journalists are still* banned from Tibet, and there have been reports of further unrest.

During the protests, I visited the Drepung monastery near Lhasa and chatted to a young monk who was intent on improving his English. In passing, I mentioned that there had been a rainbow over the city the previous evening. The monk wanted details about where the rainbow began and ended, and enthused: "The Dalai Lama's soul has truly returned."

The Government regards such talk as pure superstition, and has sent re-education teams into the monasteries to put the Dalai Lama, the exiled Tibetan spiritual leader, into a Communist perspective. The Government is also outraged that the monks should take for granted the more tolerant Chinese approach and the many *millions* of dollars Peking has poured into the remote region.

That is another basic misunderstanding. The monks have not forgotten the Dalai, though he has been in exile for 28 years, nor the brutality following the failed 1959 uprising, when the Dalai fled *to India*, nor the violence of the Cultural Revolution, when almost every temple in the region was damaged or destroyed.

The monks are not interested in the statistics proudly displayed by Peking. Grain production is 2.2 times that of 1950, and increased tourism – "the key sector of Tibet's economy," as the Government puts it - led to a 13.3 per cent rise in the profits recorded by the handicrafts industry last year.

At the heart of Chinese frustration in Tibet and in Xinjiang is the official belief that, in time, both groups will eventually see reason and be converted to Communism. However, the Government has begun to realise that religious sentiment will not easily be overwhelmed by grain statistics and by readings of the standard Communist texts.

Sun Jun, of the Xinjiang Religious Affairs Bureau, explains: "I don't believe in religion. I believe that what Marx said is right. According to party policy, we must honour and also protect religion. But with the passing of more history, these things will become weaker and weaker. It will last for a limited period. It is difficult to say how long." In Kashgar, Kasim Aysa rolls out statistics to prove that in Xinjiang, too, the party has been more than benevolent: there are 7,946 places of worship in and around Kashgar, none of which functioned during the Cultural Revolution. At that time, Peking was keen on romanising the Turkic script and separating new generations from their past. That plan has been dropped, though fading shop hoardings still bear the scars.

Kasim Aysa also emphasises that while he is a godless Moslem, other people can believe in whatever they *like*, whenever they like. "You can, today, believe in this religion and tomorrow you can believe in another religion and then on the next day you can have another religion."

Racial and religious tensions have obviously eased from earlier this decade, when Uighurs and Hans clashed in several cities, and, reportedly, similar conflict between Tibetans and Hans was not uncommon. Ordinary Tibetans and Uighurs have felt the material benefits of China's reform programme, and many Tibetans concede that life was tough under the previous rule of the Lamas, though the Dalai was a particularly popular leader.

If China's economic reforms were to falter or if the Government were to become impatient with the slow but inevitable "weakening" of religion and tighten religious controls, tension would rise *quickly* and past grudges would have new relevance. For the moment, there are few signs that Peking intends to make either serious mistake.

Robert Thomson


Qin Emperor's tomb at Xian in Shaanxi province

Key facts

Official title: People's Republic of China
Head of State: President Li Xiannian
Head of Government: Acting Premier Li Peng (due to be confirmed in 1988)
Communist Party General Secretary: Zhao Ziyang
Capital: Peking
Currency: Yuan
Exchange rate: Yuan 3.722 ~ US$1 (4.12.87)
Area: 9,596,961 sq km
Population: 1087m
Gross value of industrial and agricultural output (1986): Yuan 1,510.4bn
National income (1986): Yuan 779bn
Trade (1986): Exports US$30.9bn; imports US$42.9bn
Foreign tourists (1986): 22.82m (includes overseas Chinese)

Doing business with China: sources of help

Sino-British Trade Council
Fifth Floor, Abford House
15 Wilton Road
London SW1V 1LT
Tel: 01-828 5176/7

China Unit
Department of Trade and Industry
1 Victoria Street
London SW1H OET
Tel: 01-215 5357/5252

Commercial Section
British Embassy
11 Guanghua Lu
Jianguomenwai
Peking, China
Tel: 521961/2/3

British Consulate General
264 Yongfulu,
Shanghai, China
Tel: 374569

Business guide

Hotel discounts and headaches

THE LOT of the foreign business person in China has not been a happy one. Long a captive of a seller's market in office and apartment rentals, and long-frustrated by appalling communications and shocking service, the resident representative had every right to push for a generous hardship allowance.

While bonus-backed business people are reluctant to admit it, China has begun to turn. Suddenly there is a surplus of office space and once arrogant hotels are doing what would have been *unimaginable a year or two ago:* they are offering discounts on long-term rooms.

In a few months, the national carrier, CAAC, famed for its incompetence, will introduce computer bookings for domestic services, and International Direct Dialling is spreading quickly.

Still, opening a representative office remains an expensive proposition. Start-up costs for one staff member with a local assistant are generally estimated at $350,000, and revenue from such an office will be hard-won.

China is still suffering a shortage of foreign exchange and restricts the role of representative offices. Lawyers cannot officially engage in legal work and bankers can do little more than back hotel and office complexes.

Peking now has a glut of office buildings and more are on the way, making it likely that there will be double the needed space by late 1990. While the Government has attempted to ban new office buildings, foundations are now being laid for at least three more and several other contracts have been signed.

Signs that the market has swung around include discounts by the popular Jianguo Hotel, a Hong Kong joint venture, which has lost tenants to the recently opened, long overdue and problem-plagued Noble Tower complex in the heart of the city.

The Jianguo is offering a 20 per cent discount on the standard $100 a day, while the Sheraton Great Wall Hotel provides a 30 per cent discount for long-term tenants, and throws in a 20 per cent cut on laundry expenses and banquet room rental.

The Lido Holiday Inn office complex has several hundred vacant rooms at $60 a day for 60 sq m, plus $1.50 a sq m in management fees each month.

Despite promises by the Chinese Government to liberalise procedures for the hiring of local staff, most foreign companies are forced to use the Foreign Enterprises Service Corporation (Fesco). Interpreters range from $325 to $1,000 a month, with another $55 a month in food allowances. A secretary will cost between $220 and $325 a month, and a driver around $220.

The average Peking wage is about $250 per year, so Fesco does well out of the deal. Foreign companies negotiating joint ventures generally find that staff costs and manning levels are two much-argued issues, with the Chinese partner often out to make a killing. For example, during negotiations for an Occidental Coal joint venture, Chinese officials insisted that local miners be pa. at US levels.

Making forward bookings on CAAC for business trips to the provinces is still a problem. A businessman flying from Peking to Shanghai and then on to Chengdu, in the south-west, must generally book the Shanghai to Chengdu leg in Shanghai. However, foreign travel agents with good connections can now book the onward tickets, and CAAC promises that domestic bookings will be computerised some time next year, which, perhaps, will put an end to the tragic tales of travellers stranded in bleak, out-of-the-way places for a week.

Foreign business people who have done the Great Wall and *are looking for a different kind* of China experience in Peking should hire a car and visit the Qing, not the Ming, tombs. If you must visit the Ming tombs, insist that you be taken beyond the crush of the renovated area to the quiet surrounds of a tomb in its natural state of decay.

When in Shanghai, a cheap and readily available book, In Search of Old Shanghai, is a must. It gives the low-down on the history of the city's foreign buildings and conveys a sense of the old "Paris of the East". For communications reasons, it is probably a good idea to stay at the Huating Sheraton, but if immediate phone connections and coherent messages are not essential, the Peace Hotel or Shanghai Mansions are recommended.

Robert Thomson

CHINA

Should you require further information about the companies who have advertised in this survey, please indicate in the boxes provided below. Your requests will then be forwarded to the individual organisations concerned.

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Colina MacDougall looks at the new Politbureau and picks out the men to watch





From left to right: Zhao Ziyang, Li Peng, Qiao Shi, Hu Qili, Yao Yilin

Who's who in the new Politbureau line-up

AFTER A year of political upheavals which included student demonstrations, a leadership crisis and riots in Tibet, China's 13th Party Congress last month appointed a new ruling body to succeed supreme leader Deng Xiaoping and other party elders who formally retired.

The new Politbureau contains several much younger men whose potential can only be guessed at. Because these members are new to the top line-up,their views on the crucial issues of the reform are mostly not known.

The new leadership is widely seen as transitional, filling the gap left by the collapse of Deng's plan to leave power to the now-dismissed party general secretary Hu Yaobang and former premier Zhao Ziyang.

Any one of three or four men in the new Politbureau could end up as China's top leader, depending at least partially on whose patrons among the powerful elderly last longest. General Secretary Zhao's survival, past that of the 82-year-old Deng, is not a foregone conclusion. A look at the new line-up sheds some light on the possibilities.

Though the new Politbureau contains many unfamiliar names, two of the members have close family ties with the old leadership and two more, into their 70s, are themselves part of the revolutionary generation. Eight went to university (two in the Soviet bloc), of whom all studied some aspect of engineering.

Three, perhaps four, made careers in the power industry. Four spent time working in Deng's home province of Sichuan, with him or with each other. Two rose almost exclusively through key party posts, close to the sources of power, while another two are powerful but elderly generals.

These groupings overlap confusingly. But given the importance in China of family connections, the old school tie and career links, they provide some clue to the future. This is all the more vital as the old generation passes.

Five key members make up the Politbureau Standing Committee, which controls the Politbureau. Their average age is 67, and four of them are new. The published listing showed them in order of precedence, a hopeful sign of agreement on seniority which did not extend to the Politbureau as a whole. They are:

Zhao Ziyang, 68, party general secretary and former premier. A spokesman for and practitioner of reform, he is clearly a protege of Deng's. His later career was spent in Sichuan province. But taking the top party post has cut him off from support in the Government hierarchy.

Li Peng, 58, now No 2 in the party and acting premier, expected to be confirmed at the next National People's Congress. The son of a Communist killed in the Revolution, he was adopted by Zhou Enlai and studied electrical engineering in Moscow. Unlike most, he kept his job during the Cultural Revolution. He is widely believed to favour central planning. A man to watch.

Qiao Shi, 63, a vice-premier, is a dark horse. Newly in charge of the party's Discipline Commission and experienced in legal and judicial work, he is widely seen as China's Top Cop. After a lifetime in party work (he joined at school) he is a possible future general secretary. Silent so far on reform policies, he is another man to watch.

Hu Qili, 58, is in charge of propaganda. Associated with Hu Yaobang through years of shared Communist Youth League work, he favours reform but as a pure politician is unlikely to have the necessary all-round support to get the very top job.

Yao Yilin, 70, studied at Peking's Qinghua University in the 1930s, joining the party in 1935. He has wide experience of economic posts, is thought to be a conservative in matters of reform and is well-known to party elders. He was appointed to run the State Planning Commission earlier this year.

The remaining 12 (13 including one alternate) Politbureau members were listed in the Chinese equivalent of alphabetical order. They are:

Wan Li, 71, a vice-premier. A former Politbureau member, he has long experience of economic work. A reformer, he started the first round of Deng's agricultural changes in 1978. He failed to win the premiership this year, though acting in the post during Zhao's absences from China.

Tian Jiyun, 58, a vice-premier and Politbureau member since 1985 whose star appears slightly on the wane since he, too, lost the race for the premiership after being tipped as a runner. A committed reformer, he worked with Zhao Ziyang from 1969 to 1981 in Sichuan.

Jiang Zemin, 60, a new Politbureau member. Mayor of Shanghai and formerly Minister for the Electronics Industry, he studied at Shanghai's Jiaotong University. Mainly involved with science and technology, since 1980 his work has focused on imports and foreign investment. He is probably a reformer.

Li Tieying, 51, a new Politbureau member. Another dark horse, and the third man to watch. He is thought to be the son of Deng Xiaoping's second wife, who took off with the now-dead party leader Li Weihan. This, and his long association with Li Peng, may have helped in his promotion. Like Li Peng, he has been known to the party elders since infancy. He studied electronics in Prague in the 1950s and worked in the electronics industry, becoming Minister of Electronics in 1985. Since March, he has been chief of the key Commission for Restructuring the Economy.

Li Ruihuan, 53, a new Politbureau member. Mayor of Tianjin and a former construction worker. Earlier this year he was also rumoured to be in the running for Premier because of his energy and good party connections (he helped in the building of both the Great Hall of the People and Mao's mausoleum in Peking). His party promotion suggests his career is still on the rise.

Li Ximing, 61, a new Politbureau member. Party secretary of Peking, he was educated at Qinghua University. He worked mainly in the power industry till 1982 when he became Minister of Construction. His path is likely to have crossed Li Peng's often during his career. His views on reform are not known.

Yang Shangkun, 77, former Politbureau member and China's most senior soldier, holding the key post of permanent secretary general of the party's military commission. An old associate of Deng's, but not likely to be more than a cautious reformer.

Yang Rudai, 63, new to the Politbureau, party secretary of Sichuan and successor in that post to Zhao Ziyang. An agricultural specialist with a middle school education, local officials nicknamed him the "straw-sandalled secretary". Likely to be an economic but not a political reformer.

Wu Xueqian, 66, former Politbureau member and Foreign Minister, a third dark horse and yet another man to watch. He has risen entirely through party ranks, working in the 1950s and 1960s in the Communist Youth League when headed by Hu Yaobang. Current hints in Peking suggest he is destined for higher things. His views on reform are not clear.

Song Ping, 70, new to the Politbureau. Educated at Qinghua University where he joined the party, he later spent time at Yenan, Mao's legendary stronghold. With planning and administrative experience, he is now involved in party organisation work. A cautious reformer.

Hu Yaobang, 72, former Politbureau member and party general secretary who fell from power in January after the student demonstrations. He retained his seat on the Politbureau, but not on the Standing Committee. His support from Deng and others must still be strong.

Qin Jiwei, 73, promoted to Politbureau membership from his previous rank as alternate member. Commander of the Peking Military Region, he has made his units a model of military modernisation. Though a Deng protege, he is unlikely to support much political reform.

Ding Guangen, 59, newly promoted to alternate member. Studied transport at Jiaotong University in Shanghai during the 1950s, he is now Minister of Railways. Said to be one of Deng's bridge partners. His views on reform are not known.